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HOUSING ACT OF 1954

AIR POLLUTION PREVENTION AMENDMENT

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

EIGHTY-THIRD CONGRESS

SECOND SESSION

ON

S. 2889, S. 2938, and S. 2949

BILLS TO EXPAND AND EXTEND TITLE III, SERVICEMEN'S
READJUSTMENT ACT OF 1944, NATIONAL HOUSING ACT,
HOUSING ACT OF 1949, AND AN AMENDMENT FOR SMOKE
ELIMINATION AND AIR POLLUTION PREVENTION

PART 2

APRIL 13, 14, AND 15, 1954

Printed for the use of the Committee on Banking and Currency



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HOUSING ACT OF 1954

Air Pollution Prevention Amendment

TUESDAY, APRIL 13, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, in room 301, Senate Office Building, at 10:15 a. m., Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bennett, and Frear.

Also present: Representative Hiestand.

The CHAIRMAN. The committee will please come to order.

I might say that these hearings are being held pursuant to an amendment Senator Kuchel and I introduced with respect to the elimination of smoke and prevention of air pollution, as part of the housing bill which we are considering at the moment. We introduced the amendment and we are holding 3 days of hearings on it for the purpose of focusing the attention of the American people on the billions and billions of dollars of waste and loss each year that we suffer as a result of smoke.

Also, we feel this ought to be part of the housing bill, particularly the slum-clearance section of the housing bill and the public-housing section of the housing bill, because it is rather hard to eliminate slums and blighted areas without eliminating the smoke and other contaminants which contribute to the creation of slums. It doesn't do much good to build a new home, or a series of homes in a suburb, and then have some factory or a section of the town throwing smoke down upon them, so that in a matter of 6 months you can't tell whether the houses were originally red, white, or blue.

What we want to do, if we can, is to find some way to eliminate smoke and other contaminants that pollute air. We recognize, of course, that many aspects of the problem are local. We can't do much with it here in Washington, unless the cities are enthusiastic about it and pass the necessary ordinances and make the requisite effort themselves. But we feel that there are some areas in which the Federal Government properly can assist. Smoke is an interstate problem. Smoke doesn't pay much attention to State lines. Where cities are close together, the smoke will carry from one city to the other.

So it is a matter that the Federal Government has an interest in, just as it has in flood control for example. But it is primarily a local problem. We recognize that. We are by this amendment attempting to encourage the mayors and city councils of all cities in the United States to do something about this acute problem. We hope some good

will come of our hearings. We would like to do something to encourage people and city officials to take whatever steps are necessary to eliminate smoke and air pollution.

I will insert at this point in the record the statement I made on the introduction of the amendment on the floor, the amendment itself, and a summary of provisions of the amendment.

(The documents referred to follow :)

Mr. President, for myself, and Mr. Kuchel, I introduce an amendment which I intend to offer to S. 2938, the Housing Act of 1954, now pending before the Senate Banking and Currency Committee.

The purpose of this amendment is twofold:

To encourage and assist individuals, industries, and communities to solve their air pollution problem in order to conserve home values, improve health, and preserve the essentials for good environments needed for community living.

Essentially, by the very nature of the problem, the air pollution nuisance is interstate in character. Its control, however, is a local problem. By that I mean any program to be effective must originate at the local level and have the full and united support of all segments of the local community. Certain aspects, however, transcend city and State lines. In fact, polluted air knows no respect for corporate limits or State lines. Consequently, it appears that there is a very proper role for the Federal Government to play in any anti-air-pollution campaign.

The provisions in the amendment are threefold:

1. Rapid tax amortization of air pollution control facilities constructed by industry to provide tax relief to build control facilities when they are built in conformance with State and/or local law. As written, the tax writeoff is authorized over a period of 5 years.

This provision, it is believed, will encourage industry to install air pollution abatement equipment and assist those communities with active programs. Such equipment is frequently very costly and for the most part industry recovers nothing in the way of lower costs of operation.

2. A loan program by HHFA in cooperation with private lending institutions is provided for business enterprises which install air-pollution equipment when financial assistance is not otherwise available on reasonable terms. For the homeowner, FHA loan insurance may be used for purposes of home conversion and improvements which will aid smoke abatement and air-pollution prevention.

3. A program of technical research and study concerned with (a) the cause of air pollution, (b) devices and methods for the prevention or elimination of air pollution, and (c) guidance and assistance to local communities in smoke abatement and air-pollution prevention and control.

With the incentive provided by the proposed bill, it is hoped that cities and States will thereby be encouraged to enact legislation contemplated to reduce air pollution immediately and ultimately to eliminate air pollution.

Insofar as I am aware, this bill provides the first opportunity for congressional consideration of air pollution on a comprehensive basis, including all of its component parts. It provides a forum whereby the entire problem may be explored. Certain phases of the solution may involve an overlapping of committee jurisdiction. Even so, it is thought wise to include in the amendment all aspects of the problem in order that testimony may be directed to every facet at one and the same time. It would be unwise for 2 or 3 committees of the Senate to consider separately 1 or more aspects of the problem, because any solution of this highly complex problem can be achieved only by viewing all factors as a part of the whole. Jurisdictional matters lend themselves to solution and can be ironed out readily in the event favorable consideration is extended by the Senate Banking and Currency Committee to the suggested role of the Federal Government.

The Housing Act of 1954, S. 2938, contains provisions to encourage and assist local communities in slum clearance. It is well and good to eliminate slums. It is shortsighted, however, to permit air pollution to continue because, unless abated, we can expect the newly constructed homes of today to become the slums of tomorrow—as surely as blight follows decay.

An educated guess places the polluted-air costs to the people of the United States at about \$5 billion a year. The extent of the damage to merchandise, buildings, homes, and home foliage alone is said to be nearly \$1 billion a year.

Of even greater significance is the impact upon the health of the country from breathing polluted air. Each day, each person draws in his or her body about 3,800 gallons of air, unaware of the damage polluted air can cause breath and life.

The air one breathes may subject a person or his family to serious allergies, and eye, skin, lung, and throat ailments. Polluted air is feared by some experts to be one of the causes of the recent sharp increase in lung cancer.

Since first declaring my intention a few weeks ago to sponsor an air pollution amendment, I have received many telephone calls, telegrams, and letters from citizens and city officials in every part of the country. Each and every one contacting me enthusiastically favors an amendment of the type which I now introduce.

I hope that everyone will study this amendment and will read these brief remarks. If such be done, I believe everyone will enthusiastically support the objectives of the amendment.

Hearings on the amendment have been scheduled for April 13, 14, and 15, 1954, in room 301, Senate Office Building, Washington, D. C.

[S. 2938, 83d Cong., 2d sess.]

AMENDMENT

Intended to be proposed by Mr. Capehart (for himself and Mr. Kuchel) to the bill (S. 2938) to aid in the provision and improvement of housing, the elimination and prevention of slums, and the conservation and development of urban communities, viz:

On page 104, line 14, strike "Title VIII", insert in lieu thereof "Title IX," renumber sections 801 through 805 so that they become sections 901 through 905, inclusive, and insert the following new title VIII following title VII:

"TITLE VIII—SMOKE ELIMINATION AND AIR POLLUTION PREVENTION

"SEC. 801. The Congress hereby declares that smoke elimination and air pollution prevention are important factors in the prevention and rehabilitation of slums and blighted areas and in the conservation of the health and property of the people of the United States. It is the objective of this title to assist in smoke elimination and air pollution prevention by providing for research, loans, and special tax benefits.

"SEC. 802. (a) The Secretary of Health, Education, and Welfare (hereinafter sometimes referred to in this title as the Secretary) shall undertake and conduct a program of technical research and studies concerned with (a) causes of air pollution and excessive smoke, (b) devices, structures, machinery, equipment, and methods (including methods of selecting and using fuels) for the prevention or elimination of excessive smoke and air pollution or the collection of atmospheric contaminants, and (c) guidance and assistance to local communities in smoke abatement and air pollution prevention and control.

"(b) Contracts may be made by the Secretary for technical research and studies authorized by this section for work to continue not more than 4 years from the date of any such contract. Any unexpended balances of appropriations properly obligated by such contracting may remain upon the books of the Treasury for not more than 5 fiscal years before being carried to the surplus fund and covered into the Treasury. All contracts made by the Secretary for technical research and studies authorized by this or any other act shall contain requirements making the results of such research or studies available to the public through dedication, assignment to the Government, or such other means as the Secretary shall determine. The Secretary shall disseminate, and without regard to the provisions of 39 U. S. C. 321n, the results of such research and studies in such form as may be most useful to industry and to the general public.

"(c) In carrying out research and studies under this title, the Secretary shall utilize, to the fullest extent feasible, the available facilities of existing bureaus and offices within the Department of Health, Education, and Welfare, other departments, independent establishments, and agencies of the Federal Government, and shall consult with, and make recommendations to, such other departments, independent establishments, and agencies with respect to such action as may be necessary and desirable to overcome existing gaps and deficiencies in available data with respect to excessive smoke and air pollution cause, prevention, and control or in the facilities available for the collection of such data

For the purposes of this title, the Secretary is further authorized to undertake research and studies cooperatively with agencies of State or local governments, and educational institutions, and other nonprofit organizations, and may, in addition to and not in derogation of any powers and authorities conferred under any other act—

“(1) with the consent of the agency or organization concerned, accept and utilize equipment, facilities, or the services of employees of any State or local public agency or instrumentality, educational institution, or nonprofit agency or organization and, in connection with the utilization of such services, may make payments for transportation while away from their homes or regular places of business and per diem in lieu of subsistence en route and at place of such service, in accordance with the provisions of title 5, United States Code, section 73b-2;

“(2) utilize, contract with, and act through, without regard to section 3709, of the Revised Statutes, any Federal, State, or local public agency or instrumentality, educational institution, or nonprofit agency or organization with its consent, and any funds available to the Secretary for carrying out his functions, powers, and duties under this section shall be available to reimburse or pay any such agency, instrumentality, institution, or organization; and, whenever necessary in the judgment of the Secretary, he may make advance, progress, or other payments with respect to such contracts without regard to the provisions of section 3648 of the Revised Statutes; and

“(3) make expenditures for all necessary expenses, including preparation, mounting, shipping, and installation of exhibits; purchase and exchange of technical apparatus; and such other expenses as may, from time to time, be found necessary in carrying out the Secretary's functions, powers, and duties under this title.

“(d) There is hereby authorized to be appropriated to carry out the purposes of this section, such sums, not in excess of \$5,000,000, as may be necessary therefor.

“SEC. 803. (a) The Housing and Home Finance Administrator (hereinafter sometimes referred to in this title as the Administrator) within the limits hereinafter provided, is authorized to purchase the obligations of, and to make loans to, any business enterprise to aid in financing the purchase, installation, construction, reconstruction or remodeling of any device, structure, machinery, or equipment used or to be used in connection with the enterprise's business activities where the purchase, installation, construction, reconstruction, or remodeling would (1) substantially reduce the amount of smoke or air pollution or contamination in the community in which the device, structure, machinery, or equipment is located or to be located, or (2) in conjunction with other proposed action in the community, substantially reduce the amount of such smoke, pollution, or contamination.

“(b) No financial assistance shall be extended pursuant to this section unless the financial assistance applied for is not otherwise available on reasonable terms. All securities and obligations purchased and all loans made shall be of such sound value or so secured as reasonably to assure retirement or repayment and such loans shall be made in cooperation with banks or other lending institutions through agreements to participate or by the purchase of participation, or otherwise.

“(c) Loans made pursuant to this section may be made subject to the condition that, if at any time or times or for any period or periods during the life of the loan contract the business enterprise can obtain loan funds from sources other than the Federal Government at interest rates as low as or lower than provided in the loan contract, it may do so with the consent of the Administrator at such times and for such periods without waiving or surrendering any rights to loan funds under the contract for the remainder of the life of such contract, and, in any such case, the Administrator is authorized to consent to a pledge by the business enterprise of the loan contract, and any or all of its rights thereunder, as security for the repayment of the loan funds so obtained from other sources.

“(d) The loans shall be repaid within such period, not exceeding twenty years, as may be determined by the Administrator, and shall bear interest at a rate determined by the Administrator which shall be not less than 1 per centum plus the base annual rate which the Secretary of the Treasury shall specify as applicable to the six-month period (beginning with the six-month period ending July 31, 1954) during which the contract for the loans is made: *Provided, That such base*

annual rate for each six-month period shall be determined by the Secretary of the Treasury by estimating the average yield to maturity, on the basis of daily closing market bid quotations or prices during the month of May or the month of November, as the case may be, next preceding such six-month period, on all outstanding marketable obligations of the United States having a maturity date of fifteen or more years from the first day of such month of May or November, and by adjusting such estimated average annual yield to the nearest one-eighth of one per centum.

"(e) The total amount of investments, loans, purchases, and commitments made pursuant to this section shall not exceed \$50,000,000 outstanding at any one time.

"(f) There are hereby authorized to be appropriated such sums as may be necessary to carry out the purposes of this section. Funds made available to the Administrator pursuant to the provisions of this section shall be deposited in a checking account or accounts with the Treasurer of the United States. Receipts and assets obtained or held by the Administrator in connection with the performance of his functions under this section, and all funds available for carrying out the functions of the Administrator under this section, shall be available for any of the purposes of this section, including administrative expenses of the Administrator in connection with the performance of such functions.

"(g) Not more than 10 per centum of the funds provided for in this section in the form of loans shall be made available within any one State.

"(h) In the performance of, and with respect to, the functions, powers, and duties vested in him by this section the Administrator shall (in addition to any authority otherwise vested in him) have the functions, powers, and duties set forth in section 402 (c), except subsection (2), of the Housing Act of 1950.

"SEC. 804. (a) The Internal Revenue Code is amended by inserting after section 124B thereof a new section as follows:

"SEC. 124C. AMORTIZATION DEDUCTION FOR CERTAIN TREATMENT WORKS

"(a) GENERAL RULE.—Every person, at his election, shall be entitled to a deduction with respect to the amortization, based on a period of sixty months, of the adjusted basis (for determining gain) of any device, structure, machinery, or equipment for the collection at the source or the prevention or elimination of atmospheric pollutants and contaminants with respect to which device, structure, machinery, or equipment a certificate is made by the Secretary of Health, Education, and Welfare under subsection (d). Such amortization deduction shall be an amount, with respect to each month of such period within the taxable year, equal to the adjusted basis of the device, structure, machinery, or equipment at the end of such month divided by the number of months (including the month for which the deduction is computed) remaining in the period. Such adjusted basis at the end of the month shall be computed without regard to the amortization deduction for such month. The amortization deduction provided by this section with respect to any month shall, except to the extent provided in subsection (e) of this section, be in lieu of the deduction with respect to such device, structure, machinery, or equipment provided in section 23 (1), relating to exhaustion, wear and tear, and obsolescence. The sixty-month period shall begin, at the election of the taxpayer, with the month following the month in which the device, structure, machinery, or equipment is completed or acquired (or, in the case of reconstruction or remodeling, its reconstruction or remodeling is completed), or with the succeeding taxable year.

"(b) ELECTION OF AMORTIZATION.—The election of the taxpayer to take the amortization deduction and to begin the sixty-month period at one of the times specified in subsection (a) shall be made in an appropriate statement in the taxpayer's return for the taxable year in which the device, structure, machinery, or equipment (or its reconstruction or remodeling) was completed, or in which the certification required by subsection (d) was made, whichever is later.

"(c) TERMINATION OF AMORTIZATION DEDUCTION.—A taxpayer which has elected under subsection (b) to take the amortization deduction provided in subsection (a) may, at any time after making such election, discontinue the amortization deductions with respect to the remainder of the amortization period, such discontinuance to begin as of the beginning of any month specified by the taxpayer in a notice in writing filed with the Secretary of the Treasury before the beginning of such month. The deduction provided under section

23 (1) shall be allowed, beginning with the first month as to which the amortization deduction is not applicable, and the taxpayer shall not be entitled to any further amortization deductions with respect to such device, structure, machinery, or equipment.

“(d) DETERMINATION OF ADJUSTED BASIS OF DEVICES, ETC.—In determining for the purposes of this section the adjusted basis of a device, structure, machinery, or equipment—

“(1) There shall be included only so much of the amount of the adjusted basis of such device, structure, machinery, or equipment (computed without regard to this section) as is properly attributable to construction, reconstruction, remodeling, or installation work with respect to, or the acquisition of such device, structure, machinery, or equipment on or after the date of enactment of this section and as is certified by the Secretary of Health, Education, and Welfare as being in aid of the collection at the source or the prevention or elimination of atmospheric pollutants and contaminants.

“(2) After completion or acquisition of any device, structure, machinery, or equipment, or the completion of its reconstruction or remodeling, with respect to which a certificate under paragraph (1) has been made, any expenditure (attributable to such device, structure, machinery, or equipment and to the period after such completion or acquisition) which does not represent construction, reconstruction, remodeling, installation, or acquisition included in such certificate, but with respect to which a separate certificate is made under paragraph (1), shall not be applied in adjustment of the basis of such device, structure, machinery, or equipment but a separate basis shall be computed therefor pursuant to paragraph (1) as if it were a new and separate device, structure, machinery, or equipment.

“(e) DEPRECIATION DEDUCTION.—If the adjusted basis of the device, structure, machinery, or equipment (computed without regard to this section) is in excess of the adjusted basis computed under subsection (d), the deduction provided by section 23 (1) shall, despite the provisions of subsection (a) of this section, be allowed with respect to such device, structure, machinery, or equipment as if its adjusted basis for the purpose of such deduction were an amount equal to the amount of such excess.

“(f) LIFE TENANT AND REMAINDERMAN.—In the case of property held by one person for life with remainder to another person, the deduction shall be computed as if the life tenant were the absolute owner of the property and shall be allowable to the life tenant.

“(g) CROSS REFERENCE.—For special rule with respect to gain derived from the sale or exchange of property the adjusted basis of which is determined with regard to this section, see section 117 (g) (3).”

“(b) (1) Section 23 (t) of the Internal Revenue Code (relating to deductions from gross income) is amended by striking out ‘and 124B’ and inserting in lieu thereof ‘124B, and 124C.’

“(2) Section 117 (g) (3) of the Internal Revenue Code (relating to gains and losses from short sales, etc.) is amended by striking out ‘section 124A (relating to amortization deduction)’ and inserting in lieu thereof ‘section 124A (relating to deduction for amortization of emergency facilities), section 124B (relating to deduction for amortization of grain storage facilities), and section 124C (relating to deduction for amortization of certain air pollution prevention facilities).’

“(3) Section 190 of the Internal Revenue Code (relating to allowance of amortization deduction in case of partnerships) is amended by striking out ‘or grain storage facilities’ and inserting in lieu thereof ‘, grain storage facilities, or air pollution prevention facilities.’

“(c) The amendments to the Internal Revenue Code made by this section shall be applicable with respect to taxable years ending on and after the date of enactment of this section.

“SEC. 805. The authority of the Federal Housing Commissioner under the National Housing Act, as amended, shall be used to the fullest extent possible to encourage and assist home conversion and improvement loans which will aid smoke abatement and air pollution prevention.

“SEC. 806. For purposes of this title the word ‘State’ shall include all Territories of the United States, the Commonwealth of Puerto Rico, and the District of Columbia.”

SUMMARY OF PROPOSED AMENDMENTS TO S. 2938, SMOKE ELIMINATION AND AIR POLLUTION PREVENTION

This proposed amendment would insert a new title VIII in S. 2938, the Housing Act of 1954, which would authorize Federal aid to smoke elimination and air pollution prevention and elimination through research, Federal loans, and special tax benefits.

The Secretary of Health, Education, and Welfare would administer the research program and certify eligibility for tax benefits provided by this title. The Housing and Home Finance Administrator would administer the loan program under the title.

Section 801 would declare that smoke elimination and air pollution prevention are important factors in the prevention and rehabilitation of slums and blighted areas and in the conservation of the health and property of the people of the United States.

RESEARCH

Section 802 would direct the Secretary of Health, Education, and Welfare to undertake and conduct a program of technical research and studies concerned with (a) the causes of air pollution and excessive smoke, (b) devices, structures, machinery, equipment, and methods (including methods of selecting and using fuels) for the prevention or elimination of excessive smoke and air pollution, and (c) guidance and assistance to local communities in smoke abatement and air pollution prevention and control. Up to \$5 million would be authorized to be appropriated to carry out the research program.

The Secretary of Health, Education, and Welfare would be authorized to make contracts with any Federal, State, or local public agency or instrumentality, educational institution, or nonprofit agency or organization for the research and studies authorized by this section. Other general provisions necessary for the conduct of the research program would also be enacted by this section and the Secretary would be directed to disseminate the results of the research and studies in such form as may be most useful to industry and to the general public.

LOANS

Section 803 of the bill would provide for a program of Federal loans by the Housing and Home Finance Administrator in cooperation with private lending institutions to business enterprises to aid them in financing the purchase, installation, construction, reconstruction or remodeling of any smoke abatement or air pollution prevention device, structure, machinery, or equipment used or to be used in connection with the business activities of the borrower.

A loan would not be made by the Housing and Home Finance Administrator unless he determines that the purpose for which the loan is to be used would (1) substantially reduce the amount of smoke or air pollution or contamination in the community in which the device, structure, machinery, or equipment is located or to be located or (2) in conjunction with other proposed action in the community, substantially reduce the amount of such smoke pollution or contamination.

Also, the loan would not be made unless the borrower is unable to obtain such a loan from private sources on reasonable terms. Further, the section would provide that loans made may be made subject to the condition that, if at any time the business enterprise can obtain loans from other sources at interest rates as low as or lower than provided in the loan contract, it can do so with the consent of the Housing and Home Finance Administrator without waiving any rights to loan funds under the contract for the remainder of the life of the contract, and the borrower may pledge the loan contract as security for the repayment of the loan obtained from other sources. When used, this is in the nature of an insurance operation. It makes unnecessary the actual use of Federal funds. It has been used successfully in slum-clearance programs.

The loans shall be made in cooperation with banks or other lending institutions through agreements to participate or by the purchase of participations, or otherwise. The loans made would be reasonably secured, and would be repaid within such period, not exceeding 20 years, as the Housing and Home Finance Administrator may determine. They would bear interest at a rate of not less than 1 percent plus the base annual rate specified by the Secretary of the Treasury as applicable to the 6-month period during which the contract for the loans is made.

The base annual rate would be determined by the Secretary of the Treasury by estimating the average market yields during the month of May or November next preceding the 6-month period on Federal marketable bonds having a remaining maturity of 15 or more years. The present base annual rate is 2½ percent, which would, therefore, provide for an interest rate at this time on the loans authorized by this section of 3¼ percent or such higher rate as the Housing and Home Finance Administrator could establish in his discretion.

The total amount of loans made by the Housing and Home Finance Administrator pursuant to this section would not be permitted to exceed \$50 million outstanding at any one time. Funds would be authorized to be appropriated to carry out the loan program and the loan funds would revolve.

To assure national distribution of the loans the section would provide that not more than 10 percent of the funds provided shall be expended in any one State.

SPECIAL TAX BENEFITS

Section 804 would amend the Internal Revenue Code to permit for tax purposes the rapid amortization (over a period of 5 years) of devices, structures, machinery, or equipment for the prevention or elimination of air pollution. This special tax benefit would be available, however, only to the extent that the property which would be amortized at this accelerated rate was constructed, remodeled, installed, or acquired on or after the date of enactment of this section and to the extent that the Secretary of Health, Education, and Welfare certifies that it is in aid of the prevention or elimination of air pollution.

FHA LOAN INSURANCE

Section 905 would provide that the authority of the Federal Housing Commissioner shall be used to the fullest extent possible to encourage and assist home conversion and improvement loans which would aid smoke abatement and air pollution prevention.

DEFINITION OF "STATE"

In order to make the provisions of the title applicable to all the States, Territories of the United States, the Commonwealth of Puerto Rico, and the District of Columbia, the word "State" as used in the title would be defined to include all of the jurisdictions named.

ADMINISTRATIVE PROVISIONS

Provisions necessary to the administration of the title would be also enacted by this title.

The CHAIRMAN. I have a copy of an ordinance to control and regulate air pollution; adopted by the Council of the City of Philadelphia.

That city is operating under this ordinance. It seems very complete and might well serve as a model for ordinances for other cities.

Without objection, it will be inserted in the record at this point. (The ordinance referred to follows:)

(Bill No. 366—1953.)

AN ORDINANCE

To control and regulate air pollution in the City of Philadelphia, defining the powers and duties of the Department of Public Health, the Department of Licenses and Inspections and of the Air Pollution Control Board; prescribing fees for permits; providing for administration and enforcement and fixing penalties; and repealing the ordinance approved June 25, 1948, and cited as "The Air Pollution Control Ordinance of 1948"

The Council of the City of Philadelphia hereby ordains:

SECTION 1. *Legislative Findings.*

The Council of the City of Philadelphia finds that the pollution of the air is detrimental and harmful to the health, comfort, living conditions, welfare and safety of the inhabitants of the City of Philadelphia and injurious to their property, and it is necessary to provide for the greater control and more effective regulation of air pollution and air pollution nuisances caused by the emission or escape of dust, fume, gas, mist, odor, smoke, vapor, or any combination

SECTION 2. Definitions.

(a) "**Person.**"—An individual, partnership, corporation, or association including those acting in a fiduciary or representative capacity whether appointed by a court or otherwise and including any governmental unit, agency, officer or employee as to whom the City of Philadelphia has the power to legislate. Whenever used in any clause prescribing or imposing a penalty the term "Person" as applied to partnerships or associations shall include the partners or members thereof and if applied to corporations, the officers thereof. The singular shall include the plural and the masculine shall include feminine and neuter.

(b) (1) "**Dust.**"—Solid particles projected into the air and capable of temporary suspension in air or gas.

(2) "**Fume.**"—Solid particles commonly formed by the condensation of vapors from normally solid materials.

(3) "**Gas.**"—Normally formless fluids which tend to occupy space or enclosure completely and uniformly at ordinary temperatures and pressures.

(4) "**Mist.**"—Very small airborne droplets of materials that are ordinarily liquid at normal atmospheric temperatures and pressures. Mist shall include fog.

(5) "**Odor.**"—Smells or aromas or stinks, which are commonly recognized as offensive or objectionable, or which are very unpleasant to persons possessing normal olfactory senses, or which tend to lessen human food and water intake, interfere with sleep, upset normal appetite, produce irritation of the upper respiratory tract, or create symptoms of nausea, or which by their inherent chemical or physical nature, or method of processing are detrimental or dangerous to health, or which are of a quantity or character that violates any of the provisions of this ordinance or any of the regulations promulgated pursuant thereto. Odors and smells are used herein interchangeably.

(6) "**Smoke.**"—The extremely small solid particles produced by incomplete combustion of organic substances and includes but is not limited to particles, flyash, cinders, tarry matter, unburned gases, soot or carbon, and gaseous combustion products.

(7) "**Vapor.**"—The gaseous phase of substances that are either liquid or solid in their commonly known state, and may be changed to the solid or liquid form by increasing the pressure, decreasing the temperature, or applying both simultaneously.

(c) (1) "**Air Pollution.**"—The emission or escape of dust, fume, gas, mist, odor, smoke, vapor, or any combination thereof, in a quantity and of a character which constitutes a direct health hazard or detriment, or the contamination of the air in any manner detrimental or harmful to the health, comfort, living conditions, welfare and safety of the inhabitants of the City of Philadelphia.

(2) "**Air-Pollution Nuisance.**"—The emission or discharge into the open air of dust, fume, gas, mist, odor, smoke or vapor, or any combination thereof, of a character and in a quantity which as to any group of persons interferes with their health, repose or safety or causes severe annoyance or discomfort, or tends to lessen normal food and water intake, or produces irritation of the upper respiratory tract, or produces symptoms of nausea, or is offensive or objectionable, or both, to normal persons because of inherent chemical and physical properties, or causes or is likely to cause injury or damage to real or personal property of any kind, or which interferes with normal conduct of business, or is detrimental or harmful to the health, comfort, living conditions, welfare and safety of the inhabitants of the City of Philadelphia.

(d) "**Minor Repairs.**"—Repair or alteration of any part of any existing installation, equipment or device which does not materially alter the quantity or character of discharge into the open air of dust, fume, gas, mist, odor, smoke, vapor, or any combination thereof.

(e) "**Installation, Equipment, or Devices.**"—Any assembly of elements or components the operation of which does or may directly or indirectly cause air pollution or an air-pollution nuisance.

(f) "**Household Appliances.**"—Any electric or gas operated unit commonly used in a home or other dwelling other than incinerators, heating systems, or hot water heating systems.

(g) "**Fuel Burning Equipment.**"—Any device, machine, mechanism, or structure used in the process of burning fuel or combustible material.

(h) "**Charter.**"—The Philadelphia Home Rule Charter.

SECTION 3. "Unlawful Conduct."—It shall be unlawful for any person:

(a) To cause, emit or allow the emission or escape into the open air from any structure, machine, facility, plant, premises or ground, including parking lots, of dust, fume, gas, mist, odor, smoke, vapor, or any combination thereof, of a

quantity or character which constitutes or which in conjunction with other persons creates air pollution or an air pollution nuisance, or violates any of the regulations which may be prescribed by the Air Pollution Control Board.

(b) To construct, reconstruct, convert, operate, add to or alter any installation, equipment or device, or the appurtenances thereto, which by its operation or maintenance will emit or cause or allow the emission or escape into the open air of dust, fume, gas, mist, odor, smoke, vapor, or any combination thereof, without a permit as required by Section 4 hereof secured from the Department of Licenses and Inspection, and without eliminating air pollution or an air pollution nuisance.

(c) To burn garbage, refuse, waste material, cars, vehicles, or parts thereof, or any other material in an open fire except at such places and under such safeguards as to the creation or emission of air pollution or an air pollution nuisance as may be prescribed by the Air Pollution Control Board.

SECTION 4. "Installation Permits."

(a) Any person desiring to construct, reconstruct, convert, add to or alter or replace, except for minor repairs, any installation, equipment or device, or appurtenances thereto, that produces, controls or causes or may cause air pollution or an air pollution nuisance, shall secure a permit therefor from the Department of Licenses and Inspections and shall pay a fee therefor in accordance with the established schedule of fees set forth in Section 8 of this ordinance.

(b) Any person applying for such permit shall submit to the Department of Licenses and Inspections plans and specifications of the work to be done insofar as air pollution or an air pollution nuisance may be concerned and such other information as may be required by the Department of Licenses and Inspections.

(c) A separate permit shall be obtained for each complete unit of boiler or fuel burning equipment. In the case of a heating boiler, warm air furnace or water heater with integral burner, oil burner or stoker, only one permit shall be obtained from the combined unit.

(d) If any installation is not started within one year of the date of issuance of a permit therefor, the permit shall be null and void, and any fee paid shall be forfeited.

(e) Issuance of a permit shall not exempt any person from prosecution for violation of this ordinance or the regulations issued under it, if the actual operation of the installation, equipment or device for which the permit was issued creates or results in air pollution or an air pollution nuisance.

(f) The provision of this permit section shall not apply to the construction, reconstruction, conversion, alteration, replacement or installation of any household appliance.

(g) The provisions of this permit section shall not apply to the construction, reconstruction, conversion, alteration, replacement or installation of motor vehicles or other equipment used on highways.

(h) The provisions of this permit section shall not apply to any building or structure used exclusively for dwelling purposes and containing less than three dwelling units.

SECTION 5. "Powers and Duties of the Department of Public Health."

The Department of Public Health shall have the following power and duties:

(a) To investigate complaints, make observations of smoke and other air polluting conditions and air pollution nuisances and require the necessary and proper steps to minimize the effect, hazard or nuisance therefrom.

(b) To examine applications, plans and specifications for the construction, reconstruction, conversion, addition or alteration of any installation, equipment or device and any equipment pertaining thereto, that might or could produce air pollution or an air pollution nuisance, and to inspect installations and equipment for which a permit has been issued to see that installation is made in accordance with the permit, unless such functions are assigned by the Administrative Board of the City of Philadelphia to the Department of Licenses and Inspections of the City of Philadelphia in which case, the function shall be exercised by that Department.

(c) To inspect from time to time any installation, equipment, devices and appurtenances thereto that may, can or does cause air pollution or an air pollution nuisance, unless such functions are assigned by the Administrative Board of the City of Philadelphia to the Department of Licenses and Inspections of the City of Philadelphia in which case the function shall be exercised by that Department.

(d) To recommend promptly to the Department of Licenses and Inspections the approval, modification or disapproval of an application for a permit.

(e) To prescribe the requirements for any permit that may be required under this ordinance and its regulations.

(f) To enforce the provisions of this ordinance and the regulations issued thereunder and to commence and prosecute any action, legal or equitable, to enforce the penalties provided in this ordinance or to enjoin violations of this ordinance. Such powers, actions and remedies shall be concurrent and cumulative.

(g) To disseminate information to the public on air pollution reduction and control.

(h) To enlist the cooperation of civic, trade, technical, scientific, educational, governmental and other organizations in the control and reduction of air pollution.

SECTION 6. "Powers and Duties of the Department of Licenses and Inspections."

The Department of Licenses and Inspections shall have the following powers and duties:

(a) To transmit to the Department of Public Health for its recommendation all applications, plans, and specifications for the construction, reconstruction, conversion, or alteration of any installation, equipment, or device and any equipment pertaining thereto that may produce air pollution or an air pollution nuisance and shall request the Department of Public Health to make recommendations for the approval, disapproval, or modifications of each application.

(b) To issue permits for such applications as the Department of Public Health may approve.

SECTION 7. "Powers and Duties of the Air Pollution Control Board."

(a) The Air Pollution Control Board shall have the powers and duties provided in the Philadelphia Home Rule Charter and shall make regulations designed to promote the health and welfare of the citizens of Philadelphia, to better effectuate the purposes of this ordinance, and to prevent and control air pollution and air pollution nuisances.

(b) The Air Pollution Control Board shall, upon the written request of any interested party, hear and review any objection to any action or decision of the Department of Public Health with respect to the creation or emission of odors and may in its discretion hear and review any objection to any action or decision of the Department of Public Health with respect to the creation or emission of air pollution or an air pollution nuisance. The Board may designate one or more of its members or any other person as an examiner to hear such objections and to make recommendations in writing to the Board. The Board shall consider the recommendations and submit its recommendations to the Department of Public Health.

(c) On presentation of evidence that a major installation is required to correct a violation of this ordinance, the Air Pollution Control Board is authorized to recommend a program for installation so as to allow a reasonable time for the completion of such installation.

SECTION 8. "Installation Permits—Fees."

In issuance of permits pursuant to Section 4 of this ordinance, the following fees shall be charged:

(a) Rate Calculations.

(1) 0 to 100,000 BTU per hour----- \$5.00

(2) 100,000 to 500,000 BTU per hour

$$\text{Fee} = 0.000\ 050\ 00 \times (\text{BTU per hour})$$

$$(\text{Dollars}) = \frac{50 \times \text{BTU per hour}}{1,000,000}$$

(3) 500,000 to 2,000,000 BTU per hour

$$\text{Fee} = 0.000\ 016\ 66 \times (\text{BTU per hour}) + \$16.66$$

$$(\text{Dollars}) = \frac{16.666 \times \text{BTU per hour}}{1,000,000} + \$16.66$$

(4) 2,000,000 to 6,000,000 BTU per hour

$$\text{Fee} = 0.000\ 006\ 25 \times (\text{BTU per hour}) + \$37.50$$

$$(\text{Dollars}) = \frac{6.250 \times \text{BTU per hour}}{1,000,000} + \$37.50$$

(5) 6,000,000 to 20,000,000 BTU per hour

$$\text{Fee} = 0.000\ 001\ 786 \times (\text{BTU per hour}) + \$64.29$$

$$(\text{Dollars}) = \frac{1.786 \times \text{BTU per hour}}{1,000,000} + \$64.29$$

(6) Over 20,000,000 BTU per hour

$$\text{Fee} = \$100.00$$

$$(\text{Dollars})$$

(b) Fees are based on NET LOAD RATING in British Thermal Units of heat per hour.

(c) For the purpose of fee calculation the following definitions are adopted:

(1) One square foot of steam radiation has a capacity of two hundred and forty (240) British Thermal Units per hour.

(2) One square foot of hot water radiation has a capacity of one hundred and fifty (150) British Thermal Units per hour.

(3) One boiler horsepower is equivalent to thirty-three thousand four hundred and seventy-two British Thermal Units per hour.

(d) For units with integral gas burner, oil burner or stoker, the fee will be one and a half ($1\frac{1}{2}$) times the boiler fee.

(e) For furnaces only, calculate one of the following:

(1) Pounds of coal per hour $\times 13600 \times 0.65 =$ BTU per hour.

(2) Gallons of oil per hour $\times 150000 \times 0.65 =$ BTU per hour.

(3) Cubic feet of gas \times BTU per cubic foot $\times 0.65 =$ BTU per hour.

Fee is then based on BTU per hour.

(f) "Incinerator and Crematory Fees."

BTU per hour = Square feet grate $\times 30$ lbs. $\times 8000$ BTU. Fee is based on BTU per hour.

(g) "Gas Burners, Mechanical Stokers, Oil Burners or Coal Burners."

Fee is based on type and size of the oven, boiler, furnace or incinerator in which installed and is one-half ($\frac{1}{2}$) the fee for such equipment. For charges, see appropriate schedule.

(h) "General."

For smoke ovens, tar and asphalt kettles, road material treating plants and varnish and paint heating kettles, fee will be according to factor shown under furnaces in (e).

(1) A fee of \$5.00 per unit will be charged for each of the following items:

(1) Paint-spraying equipment vented to the atmosphere.

(2) Dryer vented to the atmosphere.

(3) Dust collector vented to the atmosphere.

(4) Chemical processing equipment vented to the atmosphere through single vent.

(5) Crushing, grinding, or milling equipment vented to the atmosphere through single vent.

(6) Rendering kettle vented to the atmosphere.

(7) Lint collector in dry-cleaning plants.

SECTION 9. "Interference with Personnel."

(a) Any person who shall refuse to comply with or who shall assist in the violation of any of the provisions of this ordinance and regulations adopted hereunder or who in any manner hinders, obstructs, delays, resists, prevents, or in any way interferes or attempts to interfere with the personnel of the Department of Public Health, the Department of Licenses and Inspections, or the Air Pollution Control Board in the performance of any duty hereunder or who shall refuse to permit such personnel to perform their duty by refusing them or any of them, after proper identification or presentation of a written order of the Commissioner of the Department of Public Health, the Commissioner of the Department of Licenses and Inspections, or the members of the Air Pollution Control Board, entrance at reasonable hours to any premises or part thereof in which the provisions of the ordinance and its regulations are being violated or have been violated, or refuse to permit the inspection or examination of such premises by such authorized persons for the purpose of investigating compliance with this ordinance and the regulations promulgated thereunder, shall be subject to all the penalties as set forth in this ordinance.

(b) The Department of Public Health shall require that any investigator entering a plant or part thereof in the course of his investigation or inspection shall comply with all safety regulations in effect on such premises.

SECTION 10. "Penalties."

(a) Any person who shall violate any of the provisions of this ordinance or any of the regulations adopted hereunder, shall be subject for each such violation to a fine of not less than ten (10) dollars nor more than three hundred (300) dollars, together with judgment or imprisonment not exceeding thirty (30) days if the amount of said fine and cost shall not be paid within ten (10) days from the date of the imposition thereof. Violations on separate days shall be considered separate violations, and shall be subject to such orders or judgment as may be issued by the Magistrates' Courts.

(b) "*Application for Injunctions.*" In addition to any other remedy at law or in equity or under the ordinance, the City of Philadelphia may apply to any Court of Common Pleas of Philadelphia for relief by injunction to enforce compliance with or restrain violations of any provisions of the ordinance or any regulations of the Air Pollution Control Board made pursuant thereto.

(c) The penalties and remedies prescribed in this ordinance shall be deemed concurrent and cumulative and the existence or exercise of any one remedy herein shall not prevent the Departments, Boards, or Commissions of the City or any affected person from exercising any remedy hereunder.

SECTION 11. "*Severability.*"

(a) The provisions of this ordinance are severable and if any provision, sentence, clause, section, or part thereof shall be held illegal, invalid or unconstitutional or inapplicable to any person or circumstances, such illegality, invalidity, unconstitutionality, or inapplicability shall not affect or impair any of the remaining provisions, sentences, clauses, sections, or parts of the ordinance or their application to him or to other persons and circumstances. It is hereby declared to be the legislative intent that this ordinance would have been adopted if such illegal, invalid or unconstitutional provision, sentence, clause, section, or part had not been included therein and if the person or circumstances to which the ordinance or any part thereof is inapplicable had been specifically exempted therefrom.

SECTION 12. "*Repeals.*"

The "Air Pollution Control Ordinance" adopted June 25, 1948, and amended by the ordinance of June 22, 1949, is hereby repealed.

SECTION 13. "*Short Title.*"

The short title of this ordinance shall be "The Air Pollution Control Ordinance."

Certification.—This is a true and correct copy of the original Ordinance approved by the Mayor on the ninth day of March 1954.

WILLIAM W. FELTON,
Chief Clerk of Council.

The CHAIRMAN. Our first witness is Dr. McCabe.

Now, Dr. McCabe, you proceed in your own way, and then we will ask you questions.

STATEMENT OF DR. LOUIS C. McCABE, CHIEF, FUELS AND EXPLOSIVES DIVISION, BUREAU OF MINES, DEPARTMENT OF THE INTERIOR

Dr. McCABE. My name is Louis C. McCabe. I am Chief of the Fuels and Explosives Division of the Bureau of Mines, Department of the Interior. Prior to that, I was Chief of the Office of Air and Stream Pollution Research, in the Bureau of Mines.

In addition to my duties in this capacity, I am a member of the American Chemical Society, committee on air pollution; chairman of the American Society for Testing Materials, committee on atmospheric sampling and analysis. I am a member of the Industrial Hygiene Foundation, committee on air pollution; also, a member of the American Medical Association, committee on industrial health.

I was the first director of the Los Angeles County Air Pollution Control District. I went out there in 1947 from the Bureau of Mines, and stayed 2 years, until 1949, returning to the Bureau of Mines at that time.

At present I am a consultant for the Los Angeles County Air Pollution District.

The CHAIRMAN. Will you yield just a moment, please?

I just want to say that we have with us Congressman Edward Hiestand of the 21st District of California, who is vitally interested in

this subject also. And I expect there will be other Congressmen along shortly, because California is very much interested in this project. Suppose you proceed, Doctor.

Dr. McCABE. I am chairman of the Federal Interdepartmental Committee on Atmospheric Pollution; and contributing editor on air pollution, Industrial and Engineering Chemistry, a monthly journal of the American Chemical Society. In that capacity, I write a monthly column on atmospheric pollution.

I have a prepared statement, Mr. Chairman, with regard to the bill, and some comments of my own with regard to it.

Research on problems of air pollution generally fall into three categories: (1) Research on health hazards; (2) the development of engineering measures for reducing the discharge of contaminants to the atmosphere; and the identification, control and prevention of injury and disease to farm crops and livestock induced by atmospheric contamination.

Historically, the first category has been the province of the Public Health Service of the Department of Health, Education, and Welfare; the second is in the province of the Bureau of Mines, Department of the Interior; and the third is properly in the field of the Department of Agriculture. It is my belief that research in air pollution could be and should be by the joint efforts of these three agencies, where such joint effort is applicable.

The problem of atmospheric pollution has become increasingly serious in recent years. Industrial production during the last decade has grown tremendously. The expansion of plants and the development of new industrial communities have been accompanied by increasing discharge of smoke, fumes, and industrial wastes in the vicinity of populous communities.

Surveys in recent years indicate that smoke damage alone costs more than \$1½ billion a year.

Because of this mounting concern over the problem of atmospheric pollution, the President addressed a letter on December 10, 1949, to the Secretary of the Interior, requesting him to organize an interdepartmental committee to call the first United States Technical Conference on Air Pollution. In his letter, the President stated:

The contamination of the atmosphere and its potential adverse effects on health, industry, agriculture, and natural resources are causing wide concern. The agencies of the Federal Government are being called upon to assist private, State, and municipal interests in finding a solution of air-pollution problems.

The United States Technical Conference on Air Pollution was held in Washington on May 3, 4, and 5, 1950, and was attended by over 750 outstanding scientists and representatives of universities, private industries, cities, and Federal, State, and local governments from the United States, Great Britain, Canada, and other countries. Some 95 papers were presented before the several panel meetings covering the health, meteorological, equipment, legislative, agricultural, and instrumentation and chemical aspects of the problem. The conference adopted a proposal that the Federal Government help in the solution of air-pollution problems. The volume Air Pollution, which I have here, Senator, is the proceedings of the conference.

The CHAIRMAN. That conference was held when?

Dr. McCABE. In May of 1950.

The CHAIRMAN. And who attended?

Dr. McCABE. It was by invitation to industries, representatives of State and municipal governments, universities, and Federal agencies.

The CHAIRMAN. Was this book published by the Federal Government?

Dr. McCABE. No, sir; we didn't have the funds to publish it. We invited three publishers to bid on it, and McGraw-Hill—

The CHAIRMAN. How many books were published?

Dr. McCABE. Three thousand five hundred, sir.

The CHAIRMAN. And how many people attended this conference?

Dr. McCABE. Seven hundred and fifty, sir.

The CHAIRMAN. Does this book cover pretty much their discussion?

Dr. McCABE. Yes, sir; it is a verbatim record.

The CHAIRMAN. And nothing came of it; is that it?

Dr. McCABE. No, sir; the recommendation that the Federal Government assist in research, and so on, has not been activated, and that was the resolution taken by the conference.

The CHAIRMAN. In other words, the Federal Government did not do it?

Dr. McCABE. No, sir.

The CHAIRMAN. Was that the only recommendation made?

Dr. McCABE. No, sir; there were several other recommendations made with regard to health, the control of air pollution, and so on.

The CHAIRMAN. The recommendation to the Federal Government was primarily that they assist in engineering and technical—

Dr. McCABE. Yes, sir; it is the general feeling of everyone, I think, and I am sure the Federal agencies agree, that the Federal Government has no part in local control and enforcement. That is a local problem. Unless it involves interstate or international boundary problems.

The CHAIRMAN. Do you agree with us that the Federal Government might well insure the mortgages for the necessary facilities or equipment to eliminate smoke in factories and processing plants?

Dr. McCABE. Personally, sir, I think that is a good approach to it. I think it would give impetus to it.

The CHAIRMAN. Do you agree that anyone who would eliminate their smoke might well have a 5-year tax amortization on the cost of facilities?

Dr. McCABE. I feel that is a constructive approach.

The CHAIRMAN. In other words, there are two things that the Federal Government could do that you feel would be helpful?

Dr. McCABE. Yes, sir; speaking as an individual.

The CHAIRMAN. Do you happen to know why cities in the past and the Federal Government in the past have failed to take the necessary action to eliminate this hazard?

Dr. McCABE. I think the big factor is the problem of cost, expense of equipment and control facilities.

The CHAIRMAN. You think it has been primarily due to lack of funds and lack of the proper facilities?

Dr. McCABE. Yes, sir.

The CHAIRMAN. Would you say more so than the lack of engineering skill or technical knowledge to do it?

Dr. McCABE. In some areas the engineering skill is not available. It is a matter of development. Certainly, as new processes come along

that we don't know too much about. But in seven years the problem has become more severe because industrial communities have become so large and they have reached the point of saturation of their atmosphere. But I think the economic factor is the great factor that has hindered development of facilities to prevent air pollution.

The CHAIRMAN. You think it is just the lack of funds to do the job?

Dr. McCABE. Yes, sir; I think so.

The CHAIRMAN. Do you think perhaps that is where the Federal Government ought to help?

Dr. McCABE. I think it is an important area.

The CHAIRMAN. Maybe not to furnish the money, but to guarantee the mortgage.

Dr. McCABE. I think that is a constructive suggestion.

The CHAIRMAN. Do you have any suggestions of a better way of doing it?

Dr. McCABE. No, sir; I don't know of any other way. We have given consideration to that for many years, those of us who have been working in this field.

The CHAIRMAN. Let's suggest at this point that anyone interested in this subject read Louis McCabe's book on Air Pollution, published by McGraw-Hill, which is a report of the proceedings of the United States Technical Conference on Air Pollution.

Dr. McCABE. That was published in 1962, sir.

The CHAIRMAN. By McGraw-Hill. Does that properly identify it?

Dr. McCABE. Yes, sir. I was the editor of the volume. Senator. It includes the work of many authors and many workers in this field.

The CHAIRMAN. In other words, we recommended that anyone interested in this subject should secure this book and read it. We will make that suggestion part of the record.

Suppose you proceed, then.

Dr. McCABE. Yes, sir.

The Bureau of Mines has frequently been called upon by State and local governments, and by private industry, for assistance in preventing atmospheric pollution. It has a staff of scientists and engineers with special qualifications, training, and experience in dealing with this problem.

The CHAIRMAN. You say it does have a staff?

Dr. McCABE. Yes, sir.

The CHAIRMAN. Of how many people?

Dr. McCABE. We would have 4 or 5 people.

The CHAIRMAN. What is your appropriation?

Dr. McCABE. We have no specific appropriation for air-pollution control.

The CHAIRMAN. Would you say that the sum total of the assistance that the Federal Government is giving this problem of smoke and air pollution is 4 or 5 people in your office?

Dr. McCABE. It wouldn't amount to that, full time. It wouldn't amount to over two people full time.

The CHAIRMAN. Then, the Federal Government, can we say for all practical purposes, is at the moment doing nothing on the subject?

Dr. McCABE. In effect I think that is correct.

The Bureau of Mines has participated in the program designed to

solve the difficult air-pollution problems of the county of Los Angeles, and the city of Beaumont, Tex., and its laboratories are working on processes to eliminate sulfur dioxide from fumes from mine-waste piles.

The Bureau of Mines is now working with the city of Chicago in a revision of its air-pollution ordinance, and has assisted the city of Trenton, Mich., with certain problems of atmospheric contamination peculiar to that area.

About 50 information circulars, reports of investigations, and bulletins, have been published by the Bureau on matters relating to atmospheric pollution during the past 40 years. I have a number of these here, Senator, but it is a rather meager record over 40 or 50 years.

The CHAIRMAN. Those are books on what?

Dr. McCABE. On atmospheric pollution; smoke abatement on the Salt Lake——

The CHAIRMAN. May I see them?

Dr. McCABE. Yes, sir.

The CHAIRMAN. Are they Federal documents?

Dr. McCABE. Yes, sir.

The CHAIRMAN. Are they the only documents you know of available on this subject?

Dr. McCABE. No, sir. The Public Health Service has some, which I don't have here. But I believe this is our latest publication.

The CHAIRMAN. I am going to suggest that the staff take these documents, and have them listed in the report, not printed but listed in such a way that anyone caring to read them might easily find them. Are they still available?

Dr. McCABE. Some of them are now out of print. The more recent ones are available.

The CHAIRMAN. But you have copies of them?

Dr. McCABE. Yes, sir; they are on file in the United States Bureau of Mines.

The CHAIRMAN. Then we will have the record state that Dr. McCabe has a copy of each of these documents that we will list in the report if anyone cares to read them.

Dr. McCABE. These activities and the problems arising from them have long been recognized as being within the peculiar province of the Bureau of Mines, since air pollution may result from the burning of fuels, the smelting of ores, the refining of petroleum, the operation of internal combustion engines, the mining and processing of fuels and building materials and related activities.

In the 83d Congress, Mr. Poulson, who is now mayor of Los Angeles and who, of course, is very vitally concerned with this problem, introduced House Joint Resolution 174, which provides, we feel an approach to the solution of this important phase of the air-pollution problem.

The CHAIRMAN. Would you say that again, please? Who did what? Do you have a copy of your statement?

Dr. McCABE. Yes, sir.

The CHAIRMAN. May I have it? Then I won't have to ask you so many questions.

Dr. McCABE. House Joint Resolution 174, 83d Congress, 1st session, introduced by Mr. Poulson, provides a realistic approach for the solution of this important phase of the air-pollution problem.

The CHAIRMAN. Do you know what committee that went to in the House?

Dr. McCABE. I have a copy here, sir. That was referred to the Committee on Interstate and Foreign Commerce.

The CHAIRMAN. At this point, without objection, we will have printed in our record a copy of this joint resolution, House Joint Resolution 174, by Mr. Poulson.

(H. J. Res. 174 follows:)

[H. J. Res. 174. 83d Cong., 1st sess.]

JOINT RESOLUTION

To provide for intensified research into the causes, hazards, and effects of air pollution, into methods for its prevention and control and for recovery of critical materials from atmospheric contaminants, and for other purposes

Whereas certain industrial processes, the use of certain fuels, and other activities have caused serious air pollution in many areas of the United States; and

Whereas air pollution has caused many deaths and illnesses among the people of the United States and extensive damage to public, industrial, and residential structures, to clothing and personal property, agriculture, forests, livestock, and to other real property; and

Whereas the methods and equipment used in many of the processes that are contaminating the atmosphere are dissipating vast quantities of materials of strategic value that are in critically short supply, such as sulfur, fuels, and various chemical and mineral products; and

Whereas existing knowledge of the causes and effects of air pollution and the methods of its prevention or control is insufficient and intensification of present programs of research and investigation is needed to determine and evaluate the effects of air pollution, to develop methods for eliminating its dangers, and to conserve or recover strategic fuels and mineral products which are wasted by dissemination into the atmosphere; and

Whereas local communities are seeking technical guidance and information to aid them in meeting their responsibilities in combating air pollution; and

Whereas the problem is so widespread and is costing business and industry many millions of dollars annually its solution is so pressing as to be a matter of national concern: Therefore be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) for the purpose of protecting public health, property, and the recovery of fuels and minerals vital to the national defense efforts, the Surgeon General of the Public Health Service, the Secretary of the Interior, and the Secretary of Agriculture are authorized and directed to intensify their respective activities within the scope of their existing statutory authority with respect to the conduct of research, investigations, experiments, demonstrations, and the publication and dissemination of information through appropriate media, relating to the causes and effects and means of prevention and control of air pollution. There are hereby authorized to be appropriated to the Public Health Service, the Department of the Interior, and the Department of Agriculture such sums for each fiscal year for the next five years, following enactment of this resolution, as may be necessary to intensify such activities.

(b) The Secretary of the Interior, the Surgeon General, and the Secretary of Agriculture shall coordinate their activities under this Act and cooperate with other Federal agencies and with State and local agencies and other public and private bodies concerned with problems of air pollution, rendering every effort insofar as practicable to aid such State and local agencies in discharging their responsibilities in combating air pollution.

(c) Not later than January 1 of each calendar year after funds are made available pursuant to the authority conferred by subsection (a), the Surgeon General of the Public Health Service, reporting through the Federal Security Administrator, the Secretary of the Interior, and the Secretary of Agriculture, respectively, shall make to the Congress a report of their activities, including recommendations as to steps which should be taken by Federal, State, and local agencies, private industries, and the general public, to assure safety from air pollution and utilization of strategic resources.

(d) The Surgeon General of the Public Health Service and the Secretary of the Interior are hereby authorized to enter into such

contracts for the performance of research and services as they shall deem necessary to the efficient discharge of their responsibilities under this joint resolution.

Dr. McCABE. It recognizes that a joint approach is essential to deal with air pollution because its serious effects on the Nation's health stem primarily from processes and methods which dissipate products of combustion of fuels and various mineral wastes into the atmosphere. It also provides for appropriately effectuating other interests of the Federal Government and recognizes State, local, and private responsibilities in dealing with the problems of air pollution, by providing that the Secretary of the Interior, the Surgeon General, and the Secretary of Agriculture shall coordinate their activities and cooperate with public and private bodies insofar as practicable to aid them in discharging their responsibilities in combating air pollution.

I would suggest that the language of the amendment be broadened to recognize that the Bureau of Mines has a role in engineering research related to the mineral industries. This is recognized in Mr. Poulson's bill. I have discussed this informally with the Public Health Service, and they have expressed a desire to meet with the Bureau of Mines' representatives to work out the appropriate language. For many years these two agencies have worked closely together on problems common to both, and a cooperative agreement exists which recognizes the common interest in many problems of the minerals industries.

I have here, Senator, a copy of the cooperative agreement under which our agencies have worked, which is entitled, "Memorandum of Understanding for Cooperative Activity in the Field of Industrial Hygiene in the Mineral Industries Between the Federal Security Agency, Public Health Service, and the Department of the Interior, Bureau of Mines."

We feel that that is a very workable arrangement, and that we could jointly approach this problem under such an agreement. I will submit that for the record, if I may, sir.

The CHAIRMAN. Without objection, it will be made a part of the record.

(The document referred to follows:)

DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D. C., January 26, 1951.

Mr. OSCAR R. EWING,
Administrator, Federal Security Agency,
Washington, D. C.

MY DEAR MR. EWING: In accordance with your letter of December 28, I have signed and am returning to you two signed copies of the Memorandum of Understanding for Cooperative Activity in the Field of Industrial Hygiene in the Mineral Industries Between the Federal Security Agency and the Department of the Interior, Bureau of Mines.

Sincerely yours,

OSCAR L. CHAPMAN,
Secretary of the Interior.

MEMORANDUM OF UNDERSTANDING FOR COOPERATIVE ACTIVITY IN THE FIELD OF INDUSTRIAL HYGIENE IN THE MINERAL INDUSTRIES BETWEEN THE FEDERAL SECURITY AGENCY, PUBLIC HEALTH SERVICE, AND THE DEPARTMENT OF THE INTERIOR, BUREAU OF MINES

The Public Health Service and the Bureau of Mines hereby agree to this memorandum of understanding as a basis for cooperative activity to achieve

increased protection of health and safety through the investigation, control, and prevention of industrial health hazards in the mineral industries and in connection with the mining, preparation, treatment, and utilization of minerals and the products thereof, and through furnishing assistance in industrial hygiene, health, and safety to those States and local organizations engaged in protecting workers against health and safety hazards in the mineral industries.

1. Outline of existing activities of the Public Health Service and the Bureau of Mines

(a) The Public Health Service conducts investigations in industry for the purpose of measuring existing health hazards and determining methods of controlling and, where possible, eliminating these hazards. Information thus obtained is available to State agencies for their use in administering laws, and enforcing rules and regulations, designed to prevent and control industrial health hazards. The Public Health Service, through consultative services, also assists the several States in formulating programs for health protection in industry, and through grants-in-aid, extends financial assistance for the creation and maintenance of industrial hygiene programs.

(b) The Bureau of Mines, among other things, conducts investigations with a view to improving health and safety in the mineral industries. The information thus obtained is published and widely disseminated among workers and operators and is available to Federal, State, and local governments for use in administering and enforcing laws and regulations relating to health and safety in the industries thus investigated. The Bureau of Mines also maintains safety stations and equipment in the various mineral regions of the United States and Alaska for the purpose of giving instruction and training on safety and health and making inspections and investigations in mines, and for giving aid in mine disasters. Engineering studies, research, and tests pertaining to health and safety of workers in the mineral industries are conducted by the Bureau of Mines in the field, and at several of the many research installations of the Bureau located at appropriate centers in the mineral industries. These investigations relate to the determination and abatement of harmful gases and dusts, and the reduction of hazards from inadequate ventilation, the use of explosives, electricity, and mechanical appliances in mining and related industries.

2. Outline of cooperative functions under this memorandum of understanding

It is agreed, therefore, that subject to applicable statutes and available appropriations, the following shall be the basis for the cooperative efforts of the Public Health Service and the Bureau of Mines under this memorandum of understanding to achieve their objective of increasing the protection of the health of workers in the mineral industries:

(a) Cooperative functions of the Public Health Service under this agreement:

(1) To conduct in cooperation with the Bureau of Mines broad field studies embracing the various epidemiological phases necessary for an evaluation of conditions suspected of causing occupational diseases in the mineral industries. Such studies will include medical examinations of workers, statistical surveys, and studies of working environment.

(2) To conduct laboratory studies on the toxicity or physiological effects of minerals, mineral products, or substances encountered in the mineral industries, for the purpose of supplementing field investigations on the health of workers in the mineral industries. The Public Health Service will, on request of the Bureau of Mines, furnish to the Bureau information on the result of such studies. The Public Health Service, at the request of the Bureau of Mines, also will make studies of the physiological effects of specific substances submitted by the Bureau and/or assign qualified personnel to conduct such investigations in the Bureau of Mines laboratories.

(b) Cooperative functions of the Bureau of Mines under this agreement:

(1) To conduct in cooperation with the Public Health Service broad studies of the health problems in the mineral industries; such studies embracing the chemical, physical, and engineering phases of health problems which the Bureau of Mines and the Public Health Service have agreed should be investigated.

(2) To conduct laboratory studies in the chemical, engineering, and physical phases of field investigations pertaining to the health of workers in the mineral industries.

(3) To cooperate with the proper State agencies in promoting the application of the results of the studies of the health of workers in the mineral

industries made by the Public Health Service and the Bureau for the purpose of controlling and preventing health hazards in these industries.

(4) To test equipment for permissibility and develop methods for control of health hazards in the mineral industries.

(c) The Bureau of Mines and the Public Health Service shall work in close cooperation according to the foregoing statement of existing and developing relationships in a unified effort to stimulate interest and action on the part of State agencies and others concerned with the protection of the workers in the mineral industries.

(d) Manuscripts reporting the results of cooperative activities under this memorandum of understanding will be published by consent of both parties.

3. As used in this memorandum of understanding, the term "mineral industries" covers all operations relating to the mining, preparation, treatment and utilization of minerals and the products thereof.

4. This memorandum of understanding supersedes the "Memorandum to form basis of joint action in the field of industrial hygiene between the United States Public Health Service and the United States Bureau of Mines, approved in 1937. This memorandum of understanding shall terminate at the end of 5 years from the date of final approval hereof, but may be terminated by either party at any time prior thereto upon 30 days' written notice to the other party.

LEONARD A. SCHEELE,
Surgeon General, Public Health Service.

THOS. H. MILLER,
Acting Director, Bureau of Mines.
(Surnames by: Indritz Welsh)

Approved, December 28, 1950:

OSCAR R. EWING,
Federal Security Administrator.

Approved January 28, 1951:

OSCAR L. CHAPMAN,
Secretary of the Interior.

Dr. McCABE. The provision to elect accelerated amortization of equipment installed for the purpose of controlling atmospheric pollution would, in my opinion, greatly reduce atmospheric contamination and property loss and provide a cleaner environment. There are technical difficulties inherent in the administration of this provision which are of an engineering and fiscal nature. These difficulties can be resolved, but other departments of the Federal Government are more experienced in their administration than is the Department of Health, Education, and Welfare or the Bureau of Mines.

Particularly in the short time we have had, Senator, to consider this, the tax situation with regard to the Treasury is, of course, one that we have not had an opportunity to explore thoroughly, and feel that the Treasury Department is best qualified to comment on that point.

The Department of the Interior first had the opportunity of reviewing the proposed amendment after it was published in the Congressional Record of April 1, 1954, and the staff is now preparing a complete statement which will reflect the Secretary's position. For this reason, I am unable to present at this time the complete views of the Secretary, particularly with regard to the amortization or the loan provisions of the amendment.

But I understand that quite often those reports do come to the committee after the hearings, and those will come to you, sir, very shortly.

In addition to the matter of accelerated amortization which, as I say, is the technical problem in the tax field, I do feel that the Federal Government could aid materially in the resolution of this

problem by advancing funds to the agencies that are qualified to work in this field, to do research. This would help the State and local level in resolving many problems, and I think it would be done for more cheaply than each of them attempting to do it alone.

I believe that concludes my statement, sir.

The CHAIRMAN. You said a moment ago you feel the Federal Government ought to do something on this subject.

Dr. McCABE. Yes, sir.

The CHAIRMAN. Have you any way of knowing the amount of damage and loss there is each year as a result of smoke?

Dr. McCABE. There was a study made about 3 years ago by Stanford Research Institute in California, with regard to smoke damage, and they estimated that smoke damage alone was a billion and a half dollars a year. That would be from the burning of fuels, primarily, but there is other damage to crops and other things that are not included in that.

And we have no definite estimate of that, but it probably would be as much or more.

The CHAIRMAN. A billion and a half dollars a year?

Dr. McCABE. Yes, sir; from smoke alone. To that would be added damage from fumes, hydrocarbon fumes, mineral dust, and that sort of thing.

The CHAIRMAN. Have you been to St. Louis since they took care of their smoke problem?

Dr. McCABE. Yes. Before the war, in about 1935 and 1936, I served on the committee at the time they were working up their ordinances in St. Louis.

The CHAIRMAN. Then you feel it is possible to do it?

Dr. McCABE. Yes, sir.

I think we shouldn't overlook the fact that this is an extremely complex problem, and the solution for St. Louis is not the solution for Los Angeles. That is, Los Angeles burns no coal, so it doesn't do them any good to go to smokeless fuel. St. Louis can clean up rather economically by limiting their coal to smokeless fuel.

The CHAIRMAN. Of course, we have ways and means of converting soft coal that makes a lot of smoke, to take the smoke out of it. It is no longer necessary, though, to burn a specific type of coal in order to get rid of smoke.

Dr. McCABE. That is true.

The CHAIRMAN. All you need is the proper facilities, and they cost money.

Dr. McCABE. That is right.

The CHAIRMAN. There is no need for one factory to do it, if his neighbor won't do likewise.

Dr. McCABE. That is right.

The CHAIRMAN. Therefore, it becomes both a local and a Federal matter. One factory may be on one side of the river, and another factory might be on the other side of the river, in another State, and the way cities may be located doesn't give them jurisdiction over either. So, it is an interstate matter. You can burn any kind of fuel today and if you use the proper facilities for burning it you can eliminate the smoke. Isn't that a correct statement?

Dr. McCABE. That is a correct statement, Senator.

The CHAIRMAN. Therefore, it is a matter of the will to do it and the necessary money to do it with.

Dr. McCABE. That is true.

The CHAIRMAN. Any city could eliminate smoke tomorrow if they wanted to—maybe not that quick, but within any given period of time, if they had the will to do so and would appropriate or spend the necessary money. Is that a correct statement?

Dr. McCABE. That is a correct statement, Senator.

The CHAIRMAN. They have a bad situation in California. You say that isn't caused by smoke. What is it caused by? They will be here later to testify for themselves. I guess you know that every Congressman in California, particularly those in Los Angeles, as well as Senators Knowland and Kuchel, are vitally interested in this legislation.

Dr. McCABE. Yes, sir. And the Vice President is also interested in it.

The CHAIRMAN. That is correct.

Dr. McCABE. I went out to California in 1947 and established the Air Pollution District of the County of Los Angeles, and served there 2 years before coming back. So, I am familiar with it, and I am a consultant to the district.

That is an unusual air pollution problem. The local meteorological conditions are great factors and of course the great development of industry has added to this problem. But primarily, that difficulty seems to be from hydrocarbon fumes in the air, from automobiles, from refineries, vapor loss in storage, and other things. There is a difference of opinion on it, of course, as there is quite often in these things.

The CHAIRMAN. Do you think it can be eliminated?

Dr. McCABE. I think it can be made so one can live with it tolerably. I think when you put 4 million people in one spot, under those weather conditions, you will always have air pollution problems, but you can reduce it to the point where people are not unhappy about it.

The CHAIRMAN. Well, thank you very much, and we may want to call you back later for more information. You have been very helpful to us this morning.

Dr. McCABE. Thank you for the opportunity.

The CHAIRMAN. Our next witness is Morris Duane, chairman of the Smoke Abatement Commission, City of Philadelphia, Philadelphia, Pa. Mr. Duane, do you have a prepared statement?

STATEMENT OF MORRIS DUANE, CHAIRMAN, SMOKE ABATEMENT COMMISSION, CITY OF PHILADELPHIA, PHILADELPHIA, PA.

Mr. DUANE. Yes, I have a prepared statement, but I would like to file it and just talk informally.

The CHAIRMAN. You may proceed in any way you care to. If you would like to file your statement and talk extemporaneously we would be delighted to have you do so. The statement will be inserted at the conclusion of your remarks.

Mr. DUANE. Thank you.

The CHAIRMAN. I was up in your city last night, on a television program, and left there at 10 o'clock.

Mr. DUANE. I was down here in Washington, and I didn't have the pleasure of seeing you.

The CHAIRMAN. Suppose you proceed in your own way.

Mr. DUANE. First, I might say my name is Morris Duane. I am a lawyer by profession, but I am appearing here as chairman of the Air Pollution Control Board of the city of Philadelphia.

That board was created by the Philadelphia City Charter to advise the mayor and the department of health on air pollution problems, and to make regulations for air pollution control. The members of the board serve without compensation.

I think it would be interesting that as evidence of the nonpartisan character of air pollution-control programs, that a majority of the members of this board, including myself, are registered Republicans, serving on this board in the administration of a mayor who was elected on the Democratic ticket, although with the support of several hundred thousand registered Republicans.

The CHAIRMAN. That is what one would expect in the City of Brotherly Love.

Mr. DUANE. It is working this time. It hasn't always in the past, Senator.

The CHAIRMAN. You are making progress.

Mr. DUANE. Another evidence of the nonpartisan support for air pollution control is the fact that 2 months ago Philadelphia adopted a new air pollution control ordinance. My friend, Randy Hamilton, of the American Municipal Association, tells me that this is the best air pollution control ordinance in the United States, and I believe that is so. The vote on this ordinance in city council was 17 to 0, all members of both parties voting in favor of it.

The ordinance was also supported by the Greater Philadelphia Movement, the Chamber of Commerce of Greater Philadelphia, the Pennsylvania Economy League, labor groups, health groups, and many more.

I would like, if I may, to make five principal points:

First, that the air pollution situation in cities is a very serious problem, both for health and property.

Second, that air pollution is a major factor in causing deterioration of cities.

Third, that to correct air pollution requires the expenditure of large sums of money as capital by industry.

Fourth, that the permission to write off rapidly their capital investments will help industry to meet this expense, and that assistance in obtaining loans will help many companies, particularly the smaller and least financially strong companies.

And, fifth, that Federal appropriations for the study of the nature, causes and cures of air pollution, would be most helpful.

Now, on the point that air pollution conditions in cities are serious to health and property, I have brought with me some photographs and newspaper articles, which I would like to have made part of this record.

The CHAIRMAN. Without objection, all of your articles will be made a part of the record and of your statement.

Mr. DUANE

It reaches the conference committee.

tee, perhaps if some of these newspaper articles and photographs were taken in, it might be helpful.

The CHAIRMAN. We cannot place the photographs in the record, but we can place the printed matter in the record. We can keep the photographs as exhibits.

Mr. DUANE. The first one, from the Philadelphia Inquirer, shows the picture of city hall, almost invisible by reason of the smog.

The CHAIRMAN. What time of day was this?

Mr. DUANE. I think it was taken in full daylight. I know it was taken in full daylight, but I can't tell you at what time.

The next one shows the Delaware River Bridge, during a smog appearance in Philadelphia, and it is almost obscured by smog and haze.

The next news article about this smog in Philadelphia shows a picture at Juniper and Filbert Street, where the automobiles are practically invisible, although they are only a few hundred yards away.

The CHAIRMAN. Is this still in the daytime?

Mr. DUANE. Yes, sir. The news articles will show those pictures were taken in the daytime.

I have another one of Rittenhouse Square in Philadelphia, in the same smog episode.

The CHAIRMAN. We will place each one of those articles in the record.

Mr. DUANE. I would like to emphasize, Senator, if I may, that Philadelphia is by no means the worst city from the point of view of air pollution. Studies have indicated there are many large industrial areas and cities which are much worse. Our efforts at control in Philadelphia have met with considerable success.

The CHAIRMAN. What about just across the river, in Camden. Are they making any effort to eliminate it there?

Mr. DUANE. Camden has a city ordinance which up until now has not been very well enforced. We are making every effort to get the cooperation of Mayor Bruner. We hope that we will have strong cooperation from him.

The CHAIRMAN. Do you agree with me that if the Federal Government enters this picture, a good job will be done throughout the entire United States?

Mr. DUANE. I have no doubt about that.

The CHAIRMAN. It is interstate commerce. I mean you have a situation there where Philadelphia is in Pennsylvania and Camden is in New Jersey. The city officials of Philadelphia can do the best job in the world, but if Camden did nothing, you might improve the situation but you would still have a bad situation.

Mr. DUANE. That is correct. In fact, in Philadelphia it is even worse, because across the river is New Jersey. Immediately south of Philadelphia, in New Jersey, are a number of oil refineries and various manufacturing plants. And when the wind blows slowly from the south, it brings very heavy smoke and fumes from oil refineries and other installations, over Philadelphia. Some of that comes up from the State of Delaware. So, we have a tristate situation in the Philadelphia area.

The CHAIRMAN. I hold in my hand a bill introduced by Hon. Lucio Russo, who will testify here in a moment. He is a member of the New York State Assembly. I believe this bill he introduced in the New

York State Assembly is now law; I believe it has been passed. One of the clauses was this:

This act shall take effect when the State of New Jersey shall make available a similar appropriation for the study and survey authorized by this act.

They recognized in this legislation that they can't do it without New Jersey cooperating. Just across the river from New York is Jersey City with other large cities and factories. Therefore, it becomes definitely a matter that the Federal Government ought to co-operate on, in my opinion.

Mr. DUANE. I think that is definitely correct, sir.

Without naming them all, sir, I would like to file some photographs, which show the burning in city dumps. You can see the smoke going over the city of Philadelphia. The city of Philadelphia is spending \$5 million to construct incinerators over the next 2 years, with the expectation that when that is done there will be no more burning in open dumps of refuse.

These other photographs, without detailing them—I would like to file them—show very heavy smoke over the city.

The CHAIRMAN. You may file them, and they will remain on file here, for the use of the committee, when we start writing up the legislation.

Mr. DUANE. Thank you.

Now, with respect to damaged property, I had a client come into my office to see me the other day, who said he had spent \$1,300 to have his house painted, and in 5 months the paint job was completely rained. We are making a tremendous effort in Philadelphia to rebuild the city, and we think that the great challenge, domestically, of the second half of the 20th century, is to revive and restore our cities as the best possible places to live. That cannot possibly be done, in our judgment, without some control of these fumes and smoke and other things which pollute the air.

The CHAIRMAN. We have spent hours and hours and weeks and weeks here on slum clearance and blighted areas. We have in this proposed legislation, as we have had in past legislation, much on the subject, and we have appropriated literally billions of dollars. I am thoroughly convinced that you cannot eliminate a slum, a blighted area, in a city until you first eliminate the smoke and dust. Otherwise, you will just go in and build a new building, and within 6 months or a year it will be again a blighted or a slum area.

Mr. DUANE. That is right.

The CHAIRMAN. So why we do not meaning the Federal Government and the cities and the counties take the necessary steps to eliminate the very thing that causes slums and blighted areas is something I shall never understand.

Mr. DUANE. I don't either, sir. Your point is definitely proved in Philadelphia, because the 2 parts of the city where the worst industrial smoke is have shown a steady decline in population over the last 15 years. That shows that as long as you have these smoke conditions, people will move out of these areas, move out of the city, the city will deteriorate, and for all the money which the Federal Government has put in, in helping slum clearance, and so forth, you won't get full value.

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Mr. DUANE. They have spent several million dollars in installing smoke-control equipment, and they claim that, as far as is scientifically possible with the present state of the art, they have eliminated it.

The CHAIRMAN. You have been up there?

Mr. DUANE. Yes, I have been through there.

The CHAIRMAN. Do they have smoke?

Mr. DUANE. Yes, sir; they have some smoke that comes out of their rolling mill, and they have some little smoke out of their blast furnaces.

The CHAIRMAN. What is it in comparison to what it would have been had they not spent the money, when they built it, designed it, around the fact that they were going to eliminate 90 percent or more of the smoke?

Mr. DUANE. It is a very, very small fraction of what it would have been if they hadn't put that in.

The CHAIRMAN. Isn't it a fact that now people are living in close proximity of the mill, with clean clothes and painted houses, that are not deteriorating?

Mr. DUANE. I can't honestly say that, because I haven't seen the houses, but people are living very close to the mill and the mill itself is quite close to Trenton. They have Levittown, which has become one of the first 10 cities in Pennsylvania within the last 2 years, and that is right next to the mill.

It is the same thing that United States Steel and other steel companies did in Pittsburgh, which cleared up that situation.

The CHAIRMAN. Let me ask you this: There will be no question about the city of Philadelphia cooperating with the Federal Government on any legislation or help that the Federal Government might care to offer?

Mr. DUANE. None whatsoever. Absolutely.

The CHAIRMAN. You understand that if the Federal Government does enter this field through legislation, it will be on the basis of course that the cities must cooperate and take the necessary first steps, and do certain things. Otherwise, the Federal Government will not participate with them. In fact, the Federal Government could not participate with them unless they were willing to cooperate.

You have no fear but what the cities would cooperate with the Federal Government.

Mr. DUANE. No, sir. I think if the Federal Government were to attempt to take over what the cities felt were their part of the job, there would be some hesitation.

The CHAIRMAN. That is the farthest from our minds. But, as far as this bill goes, what we want the Federal Government to do is to do that which the cities can't possibly do for themselves, because it is interstate and because they just don't have the money to do certain things.

Here is the situation, you see, where it must all be done practically at the same time. You can't have this one fellow eliminate his smoke today, and have the other fellow wait. It all has to be done over a comparatively short period of time, which requires considerable planning and considerable investment.

Mr. DUANE. I understand, sir.

The CHAIRMAN. But I think it would be an investment at the moment which would create jobs. It looks to me as though we will need jobs; in fact, we need many of them today.

Mr. DUANE. From our point of view in Philadelphia, sir, we cannot put too strongly the fact that the only way you can cure air pollution is to spend a lot of money. Industry has reached the point now where they hesitate to do it, and some help has got to be given them if we are going to get the job done.

The **CHAIRMAN.** If I owned a factory that was making a lot of smoke, that I knew was bad, and my neighbor over here owned one which created equally as much smoke, I would hesitate to spend money to eliminate mine unless I knew he was going to spend money to eliminate his.

Therefore, it must be handled as a unit. It must be handled by a city ordinance, and everyone must be enthusiastic about it. The Federal Government, in my mind, ought to move in and do things that the States and cities are unable to do for themselves.

Congressman Hiestand, do you have a question?

Representative Hiestand. I just want to ask this, if you please: Is there any other way than that provided in the bill where you think the Federal Government could assist?

Mr. DUANE. No, sir. I have been unable to think of any way, and I have talked to the American Municipal Association, and they say they know of no other way.

Representative Hiestand. Thank you very much.

The **CHAIRMAN.** I just want the record to show again that Congressman Hiestand is very, very much interested in this whole problem, and is attending our full hearing this morning.

Mr. DUANE. I have made up a list of the estimated expenditures by a group of representative companies in Philadelphia in the last few years on pollution-control equipment, which I would like to file.

The **CHAIRMAN.** Without objection, it will be made a part of the record.

(The list referred to follows:)

Expenditures on pollution-control equipment—Estimated amount by industry

General Smelting.....	\$75,000
Budd.....	12,000
Heintz Manufacturing.....	200,000
Federated Metals.....	75,000
Swope Oil & Chemical.....	10,000
Howard Refrigeration.....	5,000
Raxter, Kelly & Faust.....	25,000
Drueding Bros.....	38,000
Franklin Process.....	50,000
Grover Ferguson Co., Inc.....	150,000
George Sall.....	12,000
Philadelphia Wiper & Supply Co.....	25,000
G. J. Littlewood & Son ¹	10,000
Richard C. Remmer & Son.....	50,000
Borden Chemical Co.....	30,000
Henry Disston & Sons.....	150,000
Barrett Co. ²	200,000
Container Corporation of America.....	200,000
Philadelphia Felt Co.....	50,000
Philadelphia Electric.....	650,000
ACP-Brill Co.....	100,000
Steel Heddle Manufacturing Co.....	150,000

¹ G. J. Littlewood & Son damage to property by ash in river, fireproofing and paint

² Barrett " " by organic chemicals; Ajax Metal damage to property by metallic fur

Mr. DUANE. For the record, these expenditures vary from \$5,000, in the case of a small plant, to \$650,000, in the case of one of our big utilities.

There are a number of expenditures on this list of \$150,000 and \$200,000 already made by industry, actually spent. But times are changing and it is not as easy to get them to do it.

The CHAIRMAN. That will be made a part of the record. We are delighted to get that information. I am hopeful that other cities will give us similar statistics.

Mr. DUANE. I have here, which I would also like to file, a series of newspaper articles and editorials on this subject in Philadelphia.

The CHAIRMAN. Without objection, each of the editorials and newspaper articles will be made a part of the record at the end of your statement.

Mr. DUANE. These will show—and this is a point I haven't made yet and which I think is very important—the danger to the public safety of this smog condition in a great port. There are newspaper articles here of a ship and a barge collision in the smog on the Delaware River. We have had on the Delaware River, not all due to smog but many of them due to the narrowness of the channel, somewhere in the neighborhood of 30 rather serious collisions in the last few years, and some of them have undoubtedly been caused by the hazy conditions of the smog. This particular article attributes this particular accident entirely to smog.

We have entirely the same situation at our airport, which involves the public safety. We have just completed a tremendous terminal building there, which the President of United Air Lines said he felt was the number one terminal building of any airport he ever visited, and yet, when this smog condition comes up, that airport has to be sometimes shut down.

The CHAIRMAN. On account of the smog?

Mr. DUANE. On account of the smog and haze. There are other times when we are open and LaGuardia is shut down.

If you study the records at Idlewild, LaGuardia, Newark Airport, and Philadelphia Airport, and find the number of times that flying is made hazardous by reason of this smog condition, you will find that anything the Federal Government can do to help will be a tremendous interstate commerce aid.

To show that we are doing our job of enforcement, some of these articles show the various companies which have been fined under our ordinances for violating the law.

The CHAIRMAN. You have an ordinance at the moment, and you do fine some people?

Mr. DUANE. Yes, sir. Here is a company that was fined \$1,300 for violating the ordinance.

The CHAIRMAN. Why do they not eliminate their smoke? Is it that they don't have the money to put into the facilities?

Mr. DUANE. That is what they claim. Some companies are more cooperative than others. Some companies will spend more than they really should or can afford to for the public goodwill. Other companies don't care about the public goodwill and say they don't have the money. The reason that is always given to us, as is undoubtedly true in some cases, is that the companies do not have sufficient funds.

The CHAIRMAN. In that instance, where you fined that company \$1,300, do you think they would have been able, if they borrowed the money from the bank on an FHA-guaranteed mortgage, to have taken care of that?

Mr. DUANE. I cannot honestly answer that, but I think there is no doubt in the broad, general situation, that many of these companies would take advantage of that ability to get money at cheaper interest rates.

The CHAIRMAN. In any event, if you had such help offered, your ordinances then could be tightened. You could enforce them with larger fines, and force the end result that you want. Without that sort of help, I presume it is a little tough.

Mr. DUANE. Yes, sir; it is very tough in some cases.

The CHAIRMAN. I mean you don't like to fine them \$3,000 when you know the only way they can eliminate that smoke is by an expenditure of \$40,000, and they cannot borrow the money. So, I presume you are hesitant to do it in that case.

Mr. DUANE. That is right.

The CHAIRMAN. But if you knew they could borrow the money, they could put in the facilities, they could borrow it over a long period of time, they could amortize it over a period of 5 years for tax purposes, then you feel that you could get the job done? Is that your feeling?

Mr. DUANE. Yes, sir. It would be a tremendous help.

On the damage to property, some of these things show that on one occasion in Philadelphia, soot and dirt came down and damaged paint, rugs, curtains, covered the sidewalk with black soot—this is all shown in the material I have filed—and people literally woke up in the morning in their beds with their faces blackened, like black-faced comedians. The photographers got up there and took their pictures.

The CHAIRMAN. Was that in a blighted area of Philadelphia?

Mr. DUANE. That was from one of the plants of Philadelphia Electric Co., on one occasion. On another occasion, it was from another plant.

We have had it happen several times from different plants and, generally speaking, most of our troubles are along the river, in those river wards, and in south Philadelphia. But this spread over a large part of the city.

I don't want to prolong this any longer than you want, sir. We are very strongly in favor of this. We think that the research part would be tremendously helpful. I understand that the Federal Government has, within the last few days, opened a research environmental health center at Cincinnati, and there is no doubt that air pollution is an environmental health problem.

If this could be arranged so that to that research center were added air pollution research, and its causes and its cures, to supplement what industry is now doing, there is no doubt that with the ingenuity that our people have, that this problem can be licked. But it is going to take money for research and it is going to take money to put in equipment.

The CHAIRMAN. I think it must be licked. I can think of nothing that we could do that would be more helpful to our people and to health and cleanliness and eliminating slums and blighted areas and

that sort of thing. In fact, I would rather spend less money on this housing bill as it exists today, and some money on this project. I think we would be better off, in my opinion, in the end—much better off.

Do you have any questions, Congressman?

Representative Hiestand. I might ask the witness: Have you evidence that the present methods that you propose are of a scope that will take care of other kinds of smoke than what you described as being around Philadelphia, such as the blue haze smoke from refineries and so forth? Does the equipment answer that purpose?

Mr. Duane. Yes, sir. As you know, I am not a technician, but I have talked to the oil people. The executive director of our board is an employee of the Atlantic Refining Co. He was loaned to our board for 2 years to take that job. I have talked to the president of the Atlantic Refining Co. They have been pioneers in this field, and they tell me they haven't got all the problems licked yet, but they have spent large sums of money and are licking them one by one. They feel that, while they haven't got all the answers, they can eliminate the greater part of this air pollution right now, and with their research activities they expect they will be able to eliminate the rest.

Of course, the oil companies have spent more than any other industry in the field of research. I understand in California they have put up a lot of money for a study by Stanford University on the subject. Other industries I think perhaps haven't spent as much money as the oil people have.

Representative Hiestand. Is it felt around Philadelphia that refineries are a major cause of air pollution?

Mr. Duane. The public certainly thinks so, and I think our board feels that that is so, although they have improved the situation very much and have been most cooperative in trying to meet it.

The Chairman. Do you have any sections in Philadelphia where new houses or apartments have been built, that have been financed by FHA or others, which, as a result of this condition, the smoke condition, are deteriorating to the point where they have less value and are becoming somewhat slumlike in their appearance?

Mr. Duane. I can't go that far, Senator, without going around the city and looking at each of those housing developments. It is possible they are deteriorating.

The Chairman. You see, the Government has guaranteed these mortgages. They may lose if the property declines in value, and the banks holding such mortgages may well lose.

Mr. Duane. There is no doubt that will happen over a period, but when you ask me if I know of any specific one right now, I can't say that I do.

The Chairman. Do you know of a specific instance where we put up a public housing unit in Philadelphia or any other group of houses or apartments, in sections that are just literally covered with this smoke and soot that you are talking about?

Mr. Duane. Oh, yes, absolutely. Of course, Philadelphia was very slow to get in on the public housing business, under its own administration, and only recently have we had much of it, but a good deal of it is put in areas where some of the worst smoke conditions are.

The Chairman. Then they will be literally covered with smoke, if they are not already.

Mr. DUANE. There is that possibility.

The CHAIRMAN. Thank you very much. You have been very, very helpful, and we appreciate it. We may want to call your back later. (Mr. Duane's prepared statement follows:)

STATEMENT OF MORRIS DUANE, CHAIRMAN OF THE AIR POLLUTION CONTROL BOARD OF THE CITY OF PHILADELPHIA ON BEHALF OF THE CITY OF PHILADELPHIA AND THE AMERICAN MUNICIPAL ASSOCIATION

My name is Morris Duane. I am a senior partner in the law firm of Duane, Morris & Heckscher of Philadelphia. I am appearing here as chairman of the Air Pollution Control Board of the City of Philadelphia. This board was created by the Philadelphia city charter to advise the mayor and the department of health on air-pollution problems and to make regulations for air-pollution control. The members of the board serve without compensation.

It may be some evidence of the nonpartisan character of air-pollution-control programs that a majority of the members of this board, including myself, are registered Republicans serving on this board in the administration of a mayor who was elected on the Democratic ticket, although with the support of several hundred thousand registered Republicans.

Another evidence of the nonpartisan support for air-pollution control is the fact that 2 months ago Philadelphia adopted a new air-pollution-control ordinance. My friend Randy Hamilton of the American Municipal Association tells me that this is the best air-pollution-control ordinance in the United States, and I believe that is so. The vote on this ordinance in city council was 17 to 0, all members of both parties voting in favor of it.

The ordinance was also supported by the Greater Philadelphia Movement, the Chamber of Commerce of Greater Philadelphia, the Pennsylvania Economy League, labor groups, health groups, and many more.¹

As evidence of public interest in air-pollution control, it is a fact that in Philadelphia, as in other cities, frequent news articles appear on the subject, as well as numerous editorials.

The reason for this is obvious. Population and industry in America have so grown and become so concentrated in particular areas, and the number of motor vehicles has increased to such an extent that the atmosphere is incapable of sustaining the output of smoke, gas, fumes, dust, and vapors. The air above our cities has become a vast public dump, and the normal movement of air is often not sufficient to carry these air pollutants away.

As a result, in the last year in Philadelphia, as in other cities, there have been numerous cases certified to by doctors and others, of respiratory ailments, nausea, interference with sleep, the lessening of appetite, and other symptoms in both adults and children which in the opinion of doctors are dangerous to health.

Furthermore, in the city of Philadelphia, as in other cities, during this period there have been authenticated cases appearing before the board of damage to real property and personal property by reason of airborne matter.

Our board has received clear evidence of damage to property from metallic fumes, oily soot, fly ash, and other airborne materials.

On several occasions recently, photographs appeared in our newspapers of residents of a large section of the northeast part of Philadelphia, who had awakened in the morning to find their bedclothing, rugs, curtains, and furniture covered with a black oily soot, and had themselves awakened to find their faces and hair visibly blackened. It was significant that this soot came from different plants on different occasions.

Someone I knew came into the office recently and told me that he had spent \$1,300 completely painting his house, and that the paint had been virtually destroyed by chemical fumes from a nearby plant within a period of 8 months.

Philadelphia is undergoing a great development. No longer is it the sleepy town that used to be the subject of jokes on the vaudeville stage everywhere and particularly in New York. The Delaware River Valley is today one of the fastest growing areas in the entire United States. A new group of community leaders has arisen. They comprise new leaders of both political parties, and many new and old leaders of business and labor. The advent of the United States

¹ A list of the names of the members of the Greater Philadelphia Movement and of the chamber of commerce is herewith.

Steel plant at Morrisville has brought with it not merely the tremendous development immediately north of Philadelphia, but also a great number of new industries. The port of Philadelphia, today the second in the Nation, is growing steadily in tonnage volume.

All of this is creating a tremendous housing problem in this area. Mayor Clark will discuss this with your committee at some length tomorrow. The point I wish to make today is that the rapid assurance of cleaner air to the city of Philadelphia is vitally necessary to the solution of our housing problem. The two are—to use a phrase which was popular in the days of the development of regulation under the interstate commerce clause—inextricably intermingled.

There are somewhat in excess of 2 million persons presently living within the limits of the city of Philadelphia, and in the area immediately surrounding over several million more.

It is possible for some of these citizens to move into new developments outside the city limits, such as Levittown (which, in the course of approximately 2 years, has become one of the larger communities in the State of Pennsylvania), or into other developments in the surrounding areas or for them to remain in Philadelphia.

Philadelphia has all the necessary facilities, and is developing more, to make living within the city limits attractive. It has a good and constantly improving water supply, a constantly improving sewage system, good and increasingly better street lighting, a fine police force, and an excellent fire department and other advantages. The city's services are reaching a new high standard of performance under the present administration. It can thus be seen that one of the major deterrents to people continuing to live within the city limits is the question of clean air.

Unfortunately, to obtain clean air, somebody has to spend money. In Philadelphia the city is spending some \$5 million to construct incinerators to prevent burning on the city dumps which at present amounts to some 2,000 tons of trash per day. Many of our industries have spent thousands of dollars in recent years for the installation of air-pollution-control equipment. However, this has only scratched the surface of what should be done. Control equipment is extremely expensive, varying all the way from the neighborhood of a few thousand dollars for a small installation up to several million dollars for a large public utility. Expenditures by industry in the neighborhood of \$50,000 to \$500,000 are in many cases necessary in order to properly control the fumes, gases, smoke, and other air pollutants which they put forth. Philadelphia has nearly 9,000 industrial plants—incinerators, foundries, gas works, refineries, chemical plants, metal-treating plants, rendering plants, process plants and so on—involving some form of pollution—involving some air-pollution-control expenditures.

There is little that the city itself can do to help these industries pay the cost of installing this equipment. The Federal Government, however, can do a great deal by giving these industries indirect assistance by the adoption of a plan to permit these industries to amortize over a short period of time the cost of these air-pollution-control installations, which are required under the terms of the city ordinance. Also a system of insuring loans to cover the cost of air-pollution equipment could be helpful.

The importance of this assistance to our city and to other cities similarly situated is very great.

The causes of blight in a city are many, having to do both with physical conditions and human behavior. The pride of the homeowner and even the tenant in maintaining his shelter accommodation in sound and attractive condition is undermined when some neighborhood situation beyond his individual control tends to make his street a less desirable living place. In that regard unclean air and foul odors are as detrimental as a dirty, weed-ridden, unattended corner lot, or the unpainted, unattractive neighbor's home. All of them help destroy the initiative of decent citizens in maintaining homes of high standards.

The easiest solution is to move away. The trickle in time may become a torrent, and former residents are often replaced by the absentee landlord and the inconsiderate tenant with economic insecurity. There are many areas in Philadelphia where dwellings are in good condition, but where neighborhoods are beginning to show signs of deterioration.

In numerous instances the deterioration is being brought about or accelerated because of the industrial fumes and smells which are polluting the air. In Philadelphia this is particularly true along the Delaware River and in some parts of South Philadelphia. Although the causes are far more complex, it is interesting

to note that the population in those wards whose eastern boundaries are the Delaware River (except for the far Northeast where there is no industry), has declined. The population was 14.12 percent of the total in Philadelphia in 1940, and 12.04 percent in 1950, a continuation of the downward trend of the past few decades.

We recognize that proper zoning ordinance are helpful in maintaining residential neighborhoods from encroachment by commerce and industry. Our zoning ordinance, which has been on the books since 1933, has been of assistance in that regard and is now in the process of being revised.

In the case of air pollution, zoning cannot be effective because the impact of air pollution goes far beyond the immediate vicinity. If industry can be given the incentive to control its operations in order to prevent fumes, odors, and dense smoke, an important step will have been taken to save our neighborhoods.

Such encouragement to industry is particularly important at this time in Philadelphia. With the establishment of the position of housing coordinator, the city is preparing to undertake a comprehensive program of urban renewal. In addition to strict enforcement of our housing code, great emphasis will be placed on rehabilitation and conservation of homes and neighborhoods. The success of such a program depends upon voluntary cooperation on the part of all people in an area whether they are residents or run stores or factories. Such citizen cooperation and participation will be extremely difficult to obtain unless we can find an effective remedy for air pollution.

The easing of the burden on industry by permitting rapid amortization for installation of equipment to curb transmission of industrial fumes and smoke and other air pollutants would be very welcome assistance in our fight against slums and blight.

In the case of the smaller companies an arrangement to assist them in obtaining loans would also undoubtedly prove helpful.

We know that industry in Philadelphia would welcome this assistance. We are confident that the enactment of such legislation will help to induce industry to spend more money, more rapidly for the installation of air-pollution-control equipment. We are confident that the enactment of such legislation will soon result in the improvement of air-pollution conditions in our city and in other cities. This in turn will help immeasurably in the current endeavor to rejuvenate Philadelphia. Men and women of all political parties, of all religions, races, and creeds and of every economic status are engaged in this effort. Your committee has the opportunity of assisting them materially in giving cleaner air to the people of our city, and to the people of all the many industrial cities in the United States where air-pollution control is a serious problem. In that way you will be helping to solve one of the greatest domestic challenges of the second half of the 20th century, the challenge to revitalize our great cities and make them even more than ever before fine places to live.

(The newspaper editorials and articles referred to by Mr. Duane follow:)

[From the Philadelphia (Pa.) Daily News, Jan. 5, 1954]

\$250,000 PLAN TO END ODOORS GETS APPROVAL

A 4-year row between a group of Frankford residents and a chemical firm over obnoxious odors that emanate from the plant appeared at an end today when the company said it is installing more than \$250,000 worth of equipment to stop the air pollution.

A. N. Heller, an official of the Barrett Division, Allied Chemical & Dye Co., Margaret and Bermuda Streets, promised to end the nuisance by April with the installation of two catalytic incinerators costing \$250,000 and other equipment.

Heller and other Barrett officials explained their plans to a group of persons who live in the vicinity of the plant today at a meeting at the headquarters of the air pollution control board of the department of health in city hall annex.

Two spokesmen for the protesting residents, Albert Danas, of 4852 Melrose Street, and Mrs. Mary Colebaugh, of 4837 Melrose Street, said they were satisfied with the firm's plans.

[From the Philadelphia (Pa.) Inquirer, January 6, 1954]

FIRM TO REMOVE AIR POLLUTION

Plans for installation of two catalytic incinerators at the Frankford plant of the Barrett division, Allied Chemical & Dye Co., Margaret and Bermuda Streets, to eliminate air pollution were announced yesterday by company officials.

A. N. Heller, an executive of the firm, told a meeting of city officials and residents of the neighborhood, in City Hall Annex, the equipment would cost about \$250,000 and should be installed by April.

Representatives of the residents, Albert Danas, 4852 Melrose Street., and Mrs. Mary Colebaugh, 4837 Melrose Street, said they were satisfied with the firm's proposal. Residents have complained about odors from the plant.

Also attending the meeting were Jesse Lieberman, industrial engineer, air pollution control division, and Newell K. Chamberlin, the division's executive director.

[Editorial from the Philadelphia (Pa.) Evening Bulletin, December 14, 1953]

COST OF CLEAN AIR

At the first public hearing on the proposed air pollution ordinance there was evidence of nervousness lest Philadelphia acquire a national reputation for being hostile to business.

There is, of course, something else to be feared—that Philadelphia will acquire a reputation of letting its air be fouled just to be kind to business.

The councilmanic committee that has the measure under advisement will be wise in continuing its quest for an ordinance that will give the greatest possible purity of air and at the same time offer the greatest possible attractions to business. These two purposes are probably entirely consistent with each other, though some may see them as contradictory.

It is not easy to believe that any business seeking a good location would deliberately choose a city in which the air is laden with impurities and bad smells which not only threaten health and pleasant living but add to the costs of housekeeping, whether for business or home owners.

It would not be to Philadelphia's advantage to be known as a city that cannot afford clean air. Surely the costs can be met somehow.

It was made clear at the initial hearing that the draft under discussion was tentative, and that the committee was seeking information for improving it. There may be provisions in the tentative draft that bear with greater harshness than necessary to achieve the objective of clean and agreeable air, but neither business nor the citizens can afford to relinquish pursuit of the objective.

[From the New York Times, March 31, 1954]

SMOKE STUDY BILL SIGNED BY DEWEY—BISTATE BODY TO CHART THE POLLUTION OF CITY'S AIR IF NEW JERSEY CONCURS—DRIVER HEARINGS SLATED—INTOXICATION CASES WILL GO TO COMMISSIONER—PAY RISES MAKE A RECORD BUDGET

(By Warren Weaver, Jr.)

ALBANY, March 30.—Governor Dewey approved today a bill authorizing the Interstate Sanitation Commission to undertake a bistate study of smoke and air pollution in the New York City area.

The bill, which appropriates \$30,000 for New York State's half of the expense, will not go into effect, however, unless the New Jersey Legislature approves a similar measure and agrees to cooperate on the project.

In 1952 an essentially identical bill went through the New York Legislature without any difficulty, but New Jersey failed to provide the matching appropriation and the smoke control study never was begun.

(A companion bill was introduced February 1 in the New Jersey Legislature. It probably will be reported out of the Federal and interstate relations committee on Monday.)

The commission was established in 1936 to deal with water pollution problems affecting New York, New Jersey, and Connecticut. The New England State is

omitted from the smoke study, since no complaints have arisen that Connecticut was contributing to the city's problems.

A commission study is expected to resolve one of the perennial disputes on New York City smoke. City officials have contended for years that much of it blows over from Jersey, while Jersey has argued that city smoke is adding to its air pollution problem.

Under the law—if New Jersey concurs—the commission will report to Governor Dewey by February 1 its recommendations for an air pollution control program and suggest what agency might administer it, as well as evaluate existing smoke control laws in the two States.

[From the Philadelphia (Pa.) Bulletin, January 23, 1954]

METAL PLANT INSTALLING SMOKE-FILTERING UNIT

A \$175,000 smoke-filtering unit is being installed at the brass and bronze ingot smelting and refining plant of the Ajax metal division of H. Kramer & Co., Richmond Street and Frankford Avenue, it was announced today.

Ben Kaufman, assistant general manager of the firm, made the report of the installation to the air pollution control division of the public health department. Kaufman said the unit is capable of handling 47,000 cubic feet of dust and smoke laden gas per minute. It is expected to be completed by May 1.

[From the Philadelphia (Pa.) Inquirer, January 23, 1954]

GIANT FILTER TO CONTROL SMOKE AT SMELTING PLANT

A giant filtering unit to control smoke emanating from a smelting plant at Richmond Street and Frankford Avenue will be in operation by May 1, the air pollution control division of the department of health was told yesterday.

Ben Kaufman, an official of the Ajax metals division of H. Kramer & Co., said the unit, which will cost \$175,000, will eliminate the objections of neighbors, who last year filed a suit to restrain the plant's operations.

Newell K. Chamberlin, executive director of the air pollution division, explained that the plant, which smelts brass and bronze, emits a thick, white smoke that frequently reduces visibility in the neighborhood. The smoke also contains an irritant, zinc oxide, which is particularly objectionable under certain weather conditions.

Kaufman said the unit, designed by W. S. FitzPatrick, company engineer, is the second of its type in the country. The other is located in a Kramer factory in Los Angeles.

He said it would be capable of handling 47,000 cubic feet of smoke and dust-laden gas per minute. Chamberlin and other representatives of the department of health who attended a conference in City Hall Annex to study the filter's design, expressed the conviction that it would do its job effectively.

[From the Philadelphia (Pa.) Inquirer, January 23, 1954]

GPM GIVES FULL SUPPORT TO AIR-POLLUTION LAW

The Greater Philadelphia Movement today announced full support to the new air pollution control ordinance now before city council.

Geoffrey S. Smith, cochairman of GPM, said that meetings of his technical staff with members of council's committee on public health have resulted in "unanimity * * * on all essential provisions of the ordinance."

Smith, in a letter to Councilwoman Constance H. Dallas, committee chairman, called the amended bill a "great forward step in controlling air pollution."

[From the Philadelphia (Pa.) Evening Bulletin, February 9, 1954]

11 MADE SICK BY POISON GAS—CHLORINE LEAKS AT SOUTH PHILADELPHIA PLANT

Eleven persons were affected by poisonous chlorine gas last night at the Henry Bower Chemical Manufacturing Co., 2815 Grays Ferry Avenue.

John Dougherty, assistant plant superintendent, said the gas came from a leak in 1 of 2 feed lines running from a tank car into building No. 8, one of several half-block-square buildings on the grounds of the huge plant.

The heavy, greenish-yellow gas spread over a large area in South Philadelphia.

FED FROM TANK CAR

David Wood, plant supervisor, said the gas was being fed from a tank car filled with 3,000 gallons of chlorine. He said very little of the gas seeped out. A safety valve is attached to the tank car to cut off the flow if leaks develop, he said.

However, enough gas escaped to blanket lightly an area covering at least four nearby streets between Grays Ferry Avenue, and the Schuylkill River, including Alter, Ellsworth, Annin, and Peltz Streets.

Only the skeleton night crew was on duty when the leak was discovered about 6:45 p. m.

In building No. 8 were Juan Hernandez, 37 of 306 South 10th Street, and Clarence Kennedy, 44, of 1211 South Harmony Street. In neighboring building No. 14 were William Hoover, 45, of 2033 East Orleans Street, a head chemical worker, and David Brinson, 45, of 702 South 15th Street.

The night watchman was Joseph Small, 75, of 2708 Titan Street.

SMELLED FUMES

The men in No. 8 smelled the fumes first. One of them struck a box inside the company yard. All of the men except Hoover left the buildings to get away from the fumes.

Hoover, however, fought his way through the choking fumes to turn off the valve and stop the flow of chlorine. He collapsed after turning the valve off.

Members of Rescue Squad No. 3, from 50th Street and Lancaster Avenue, put on "air pack" masks, entered the building, and pulled Hoover to safety. Hoover was admitted to Graduate Hospital with acute chlorine poisoning.

Battalion Chief James G. Davis, 57, of 2127 Jefferson Street and the 19th and South Streets fire station, was overcome outside the buildings and collapsed. He was treated at Graduate and released later.

TREATED WITH OXYGEN

Brinson, Hernandez, and Small were treated at Philadelphia General Hospital. Oxygen was used to counteract the chlorine.

Several firemen became ill after returning to their stations. Five were treated at Philadelphia General Hospital. They are:

William Miller and Rodman Holland, of Rescue Squad No. 3, and Michael Hannan, Stephen Kamien, and Nunzio Richini, of Engine 47, 3135 Grays Ferry Avenue, the first company at the scene. Henry Herling, of Rescue Squad No. 1, Juniper and Race Streets, was treated at Hahnemann Hospital.

One fireman, Thomas Malone, 29, of 823 North Beechwood Street, a member of truck 9, 2110 Market Street, was injured. His right ear was cut and he was treated at Graduate Hospital.

[From the Philadelphia (Pa.) Evening Bulletin, November 27, 1953]

FIRM FINED \$1,300 IN AIR POLLUTION

The Nicetown Dye Works, Orthodox and Belgrade Streets, yesterday was fined a total of \$1,300, plus \$65 costs, by Magistrate Elias Myers on charges of violating the city's air pollution control ordinance.

Assistant City Solicitor Frederick Fiegenberg, who prosecuted the case in central police court, said the fine, based on 13 separate counts, was the largest ever levied here on air pollution charges. James F. Masterson, attorney for the company, said he would appeal.

THIRTEEN VIOLATIONS

Jesse Lieberman, industrial engineer for the air pollution control board, testified that on 13 days between October 2 and November 12 smoke from the company's chimney was well above the 60-percent density allowed by the ordinance, and on some days soared to 100 percent.

Newell K. Chamberlin, the board's executive director, added that the firm's present equipment "could not be operated without violating the law" since the furnaces use soft coal.

"We're concentrating on all industrial firms in the present drive and in most cases we are getting excellent cooperation," Chamberlin declared. "In the last 6 months, however, we have received little cooperation from the Nicetown Dye Works."

PLAN TO CHANGE TO GAS

Masterson insisted the company had attempted to work out a solution with the city, and that the president, Raymond W. Walls, was now making efforts to obtain gas from the Philadelphia Gas Works Co. for the powerplant.

It was the second time in 6 weeks the firm was in police court on air pollution charges. At the previous hearing, attended by a number of women residents of the section, the charges were dismissed on the company's promise to remedy the conditions within 60 days.

[From the Philadelphia (Pa.) Evening Bulletin, November 27, 1953]

AIR POLLUTION COSTS \$1,300—FIRM IN NORTHEAST FINED FOR SMOKE

The Nicetown Dye Works, Inc., Belgrade and Orthodox Streets, Bridesburg, was fined \$1,300 and \$5 costs today for polluting the air.

Assistant City Solicitor Frederick Flegenberg, who prosecuted the case, said that the fine, imposed by Magistrate Elias Myers in central police court, is the largest levied since adoption of the air pollution control ordinance in 1948.

The company offered no defense. James F. Masterson, its attorney, said the fine would be appealed.

THIRTEEN VIOLATIONS

The fines were imposed for 13 violations of the air-pollution ordinance between October 2 and November 12.

Jesse Lieberman, industrial engineer for the air pollution control board, said tests showed degrees of blackness in smoke from the company's stacks ranging from 60 to 100 percent in density. Any density of 60 or above is a violation, he declared.

Lieberman said the tests are taken by what is known as the Ringelman chart, which is an accepted method for measuring smoke density. He said the company burns soft coal with stokers.

On October 8 Magistrate William Cibotti cleared the firm when it was accused in central police court by about 20 women of ruining their wash and spreading a black deposit over their homes.

TOOK SAMPLES TO COURT

Some of the women went to court with samples of a sediment scraped from house paint. At that time Masterson contended the soot did not come from the Nicetown plant but from other industries in the area.

Newell K. Chamberlin, executive director of the air pollution control board, said after the hearing that the board has not received adequate cooperation from the company since it first began to receive complaints from residents about 6 months ago.

"We don't want it to appear that we are putting any particular pressure on this firm," said Chamberlin. "As a matter of fact, we have been concentrating on all industrial firms in the northeast section. For the most part we are receiving cooperation. But from this firm—no."

[From the Philadelphia (Pa.) Bulletin, July 7, 1953]

PHILADELPHIA ELECTRIC FINED FOR SOOT—PAYS MAXIMUM OF \$100 AND COSTS

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• fined \$100 today because thick, oily soot
reets spread over a wide area of the north-

any by Magistrate William

The electric company was charged with violation of the air pollution control ordinance of 1948. Charges were brought by the Air Pollution Control Board, which investigated the incident.

The \$100 fine was the most that could be levied under the law.

There was no testimony at the 1-minute hearing. A representative of the company arrived with the check already made out and handed it to Cibotti.

However, Frank A. Simons, an attorney, was at the hearing and announced that he had been retained by 90 householders whose homes and belongings were blackened by the soot.

COMPANY SETTLING

Simons said company adjusters are in the process of settling with all of those affected.

Philadelphia Electric said the day of the incident that the trouble was in failure of a fly-ash fan while a generating unit was being changed over from coal to fuel-oil operation.

Also fined \$100 and costs by Cibotti today was the Congoleum Nairn, Inc., recent successor to Sloane-Blabon Corp., Front Street and Erie Avenue.

Jesse Lieberman, industrial engineer for the board, said that the company is one of the worst offenders in the northeast as far as cinders and odors are concerned. He said he thought the trouble was caused by the burning of scrap linoleum.

R. R. Fredericks, plant engineer, said that was not true, that the trouble was mechanical failure in stokers. He said that the plant is to close down the first 2 weeks in August and steps will be taken then to correct the stoker defect so there will be no recurrence of the trouble.

[From the Philadelphia (Pa.) Inquirer, July 8, 1953]

PHILADELPHIA ELECTRIC CO. PAYS \$100 FINE IN POLLUTION

The Philadelphia Electric Co., haled into central station yesterday on charges of violating the city's antipollution ordinance, waived a hearing and came prepared with a check already made out for \$109.95—exactly enough to pay a \$100 fine and costs.

The utility had been blamed for a mechanical failure at its Delaware station at Beach and Palmer Streets shortly after midnight last June 22, with the result that a huge section of the lower northeast was blackened by a thick film of oily soot.

ANOTHER FIRM FINED

A similar fine and costs were levied against the Congoleum-Nairn Corp., after representatives of the air pollution control board testified that dense clouds of black smoke had poured from a stack at its plant at Front Street and Erie Avenue for 15 minutes on the same day.

Assistant City Solicitor Frederick Flegenberg was on hand to prosecute the electric company but there was no testimony. Frank A. Simons, who identified himself as attorney for a number of residents in the area, said his clients would seek claims against the company for damage to their homes and furnishings, but Magistrate William A. Cibotti said he was concerned only with the ordinary violation.

A representative of the company, who did not identify himself, handed over the check without argument. At the time of the incident, a company spokesman said the deposit of soot was caused by the failure of a fly-ash fan, which was designed to blow unburned tronic precipitators.

Officials of the Congoleum-Nairn Co. said they were testing equipment in an effort to prevent an occasional discharge of smoke at their plant.

[From the Philadelphia (Pa.) Evening Bulletin, November 23, 1953]

FOG BLANKET DARKENS AREA AFTER RAIN. WIND LIFTS SMOG—LOW VISIBILITY SLOWS TRAFFIC INTO MIDCITY

The eye-reddening smog was gone today, but a heavy blanket of fog—the plain, ordinary, nonirritating type—settled over this area in its place.

Accompanied by rain, it reduced visibility, slowed traffic and delayed some people on their way to work.

In central city, low-hanging clouds and fog became so thick about 8:30 a. m. that daylight was transformed into dusk temporarily.

Lights went on in office buildings, motorists, trolley car motormen and bus operators switched on their headlights while groping through murky streets.

TWO AIR MASSES MEET

The darkness broke shortly before 9 a. m.

Henry P. Adams, the weatherman, said that the pileup of low hanging clouds was caused by a meeting of 2 air masses, 1 coming from the northwest and the other from the southeast.

The smog—a combination of fog, soot, and industrial smoke—developed on Wednesday, but its irritating effect wasn't felt until Thursday.

It was caused by an inversion in which a layer of cooler air near the ground was held down by a layer of warm, dry air. This trapped the mixture of fog and the impurities.

HIGH ALTITUDE WINDS

Around noon yesterday the smog finally began to lift. There wasn't much wind near the surface at the time.

A weather bureau spokesman expressed belief that southwest winds of about 50 miles an hour, blowing at a height of from 5,000 to 10,000 feet, dispelled the inversion.

At 1 this morning light rain began to fall. It came down heavier between 3 and 5 a. m., accompanied by winds of 23 miles an hour, with gusts up to 32 at International Airport.

This further served to dispel the smog. The weather bureau registered 0.63 of an inch of rain.

AIRPORT TRAFFIC HEAVY

International Airport became the scene of a traffic jam last night when fog forced rerouting of planes bound for New York and Boston airports.

About 70 planes landed at the Philadelphia airport during the 5 hours from 6:30 to 11:30. The normal traffic is about 30 planes, Albert V. Anderson, airport superintendent, said.

During the height of the rush, a National Airlines 4-engine DC-6, bound from Idlewild to Miami, reported motor trouble shortly after it took off from International at 7:40.

A half a dozen other planes, waiting to land, were held off by the control tower as the airliner with 53 passengers and a crew of 3 returned for an emergency landing.

FIRE CREWS STAND BY

As a precautionary measure, fire and rescue equipment was called out. But the DC-6 came to ground safely at 8:08 without incident. The pilot, Capt. E. P. McDonald, reported that one of his motors began to fail shortly after takeoff.

The passengers were placed aboard another plane and sent on their way.

Airport officials called out extra guards and maintenance crews to handle the crush of about 1,000 passengers and the extra planes.

PUT ABOARD BUSES

Most of the passengers were bound for Idlewild, Newark, and LaGuardia airports and Boston. Limousines and almost a dozen PTC buses were pressed into service to shuttle the people to 30th Street Pennsylvania station.

A half-dozen additional customs inspectors were sent to help clear passengers coming in on overseas flights, mostly from Bermuda and the Caribbean.

Anderson reported that the airport had no difficulty handling the extra plane traffic but the present terminal caused some delay in handling.

The when weather conditions eased at New York.

[From the Philadelphia (Pa.) Inquirer, June 23, 1953]

FAN FAILURE AT ELECTRIC PLANT PROBED IN NORTHEAST SMOG—POLLUTION BOARD STUDIES ACTION AGAINST FIRM

City air-pollution authorities launched a probe yesterday into the background of a mechanical failure at a Philadelphia Electric Co. generating plant blamed for blackening a huge area of the lower northeast with a thick film of oily soot in the early morning hours.

Thousands of residents of Port Richmond and Kensington awoke to find their faces and bodies blackened by the soot. Many—especially those sleeping with windows opened wide during the hot and humid night—reported extensive damage to upholstered furniture, rugs, and wallpaper.

FAN FAILURE BLAMED

An electric company spokesman attributed the condition to the failure of a fly-ash fan when 1 of 2 new generators at the Delaware station, Beach and Palmer Streets, was being changed over from coal to fuel-oil operation.

The fan, he said, is supposed to blow unburned solids to collectors and electronic precipitators. For about 10 minutes, from midnight until 12:10 a. m., the particles went up the flue and spread over the area.

Morris Duane, chairman of the air-pollution control board, and Newell K. Chamberlin, head of the health department's division of pollution control, sent investigators into the area to take samples of the soot.

BOARD MAY BRING CHARGE

Duane and Chamberlin admitted the accident was of a type which the company's engineers can be expected to prevent in the future. They added, however, the air-pollution control board may still bring a charge of violating the anti-pollution ordinance against the company. Maximum penalty is a \$100 fine.

Police of the Girard and Montgomery Avenues and the Belgrade and Clearfield Streets stations said they started receiving calls from residents shortly after 1 a. m.

Hundreds of additional calls were received at the police stations and at the electrical bureau in city hall between 6 and 7 a. m., when residents awoke to find themselves smudged.

The only hospital in the area, Northeastern, at Tulip Street and Allegheny Avenue, called in off-duty nurses to help close windows and change patients bedclothing.

[From the Philadelphia (Pa.) Inquirer, November 20, 1953]

MANY FALL ILL AS CHOKING SMOG BLANKETS AREA—WARM-AIR LAYER OVER COLD HOLDS SMOKE TO EARTH

A layer of smog so thick that it penetrated offices and private homes lay over Philadelphia and Camden yesterday, hampering airline operations and shipping, and hospitalizing nearly a score of industrial workers.

Hundreds of central-city shoppers and workers were affected by the smog which brought tears to the eyes, and a private plane made a forced landing on the Delaware River when the haze blotted out his visibility.

The condition, a mixture of fog and smoke from industrial plants, extended over a considerable portion of the Atlantic seaboard, according to the Weather Bureau here. It was expected to continue through today and tonight.

BLANKET OVER AREA

George Richards, acting chief of the air pollution control board, said the phenomenon was caused by an air inversion, in which a pocket of warm air, lying above cold atmosphere closer to the group, caused moisture to condense in the cold air and create fog.

The two layers of air, he explained, acted as a lid, holding smoke and fumes close to the ground instead of permitting them to dissipate in the upper air.

WOMEN COLLAPSE

Although Owen B. Stubben, deputy health commissioner, said the smog was not a health hazard, a number of women employed at the Unity Machine & Tool Corp., 2727 East Westmoreland Street, collapsed shortly after noon yesterday, apparently as a result of air pollution.

They were among 26 persons employed in the plant, some of whom first complained of illness and asked that the windows be opened and the place aired out. When this failed to relieve them, they were granted permission to go outdoors "for air"—and once outside, they collapsed. Ten of the women were taken to Northeastern Hospital, where oxygen was administered. Several of those most seriously affected were detained for further treatment.

PEDESTRIANS WEEP

In the central city, pedestrians went about weeping as the smog became progressively worse in the early afternoon. Hospitals in that area reported a considerable number of cases coming in to complain of smarting eyes. They were treated for smoke irritation with a boric acid solution and sent on their way.

At International Airport, half a dozen morning flights were delayed by low visibility. At 12:40 p. m., a privately operated 4-passenger Fairchild seaplane was forced to land in the middle of the Delaware River off the House of Correction when visibility became zero.

LANDS AT WHARF

The pilot, Walter O'Connor, 46, of Agawam, Mass., taxied to the House of Correction wharf at the foot of Rhawn Street, where the storekeeper, Albert Cafolla, of 551 West Butler Street, tossed him a rope and helped him to land. O'Connor said he had brought two Agawam businessmen, Howard Burkland and John Zielinski, to Philadelphia, and had planned to land at pier 3 south, at the foot of Chestnut Street, but was halted short of his destination by the smog. Burkland and Zielinski were met a short time later by a business associate from Riverton, N. J., and completed their trip by automobile.

TRASH-BURNING STOPPED

To help ease the situation, the air pollution control board ordered all city dumps to stop burning rubbish as a means of reducing smoke, and notified industries in the area to curtail smoke-producing operations as much as possible. It also asked the cooperation of the police department in broadcasting warnings to motorists to use caution in driving because of low visibility.

Henry P. Adams, Chief of the United States Weather Bureau here, predicted that "as soon as we get some wind, the inversion will be wiped out." He added, however, that no wind is expected before late this afternoon, at the earliest.

The same situation was prevalent, Adams said, from Baltimore to New York, but was intensified over the industrial areas.

An estimated 2,000 telephone calls from residents curious or concerned about the condition poured into the electrical bureau and the Weather Bureau in the course of the day.

[From the Philadelphia (Pa.) Bulletin, April 1, 1954]

CITY AIR SO FOUL INCINERATOR'S O. K., EXPERT TESTIFIES

A professor of meteorology testified today that an incinerator at Abbottsford Avenue and Fox Street would cause no detectable or measurable difference in the nearby atmosphere.

The air in Philadelphia already is so polluted, said Dr. Hurd C. Willet, of the Massachusetts Institute of Technology, that the incinerator could have no appreciable effect.

He testified in behalf of the city, which is defending a suit brought by John B. Kelly and other residents of East Falls to restrain the city from building the incinerator. Judge Vincent A. Carroll has been hearing testimony in the case since early in January.

Dr. Willet's testimony was at odds with testimony given several weeks ago by a former pupil, Francis A. Davis, Jr., now an instructor in meteorology at Drexel Institute of Technology. Davis said that in his opinion the incinerator would pollute the air within a certain radius.

[From the Chamber of Commerce News of Greater Philadelphia, March 17, 1954]

COMMITTEE MEMBERS WITH LEADING ROLES IN AIR POLLUTION LAW PASSAGE

Following are the members of the two chamber committees which took leading roles in adoption of the new air pollution control law. The first committee spearheaded the chamber position in the legislative phase, while the second is concerned with the administrative phase of the law.

LEGISLATIVE COMMITTEE FOR THE NEW AIR POLLUTION CONTROL LAW

C. G. Simpson, Philadelphia Gas Works, chairman; E. M. Baxter, the Budd Co.; Samuel Blum, H. M. Wilson & Co.; William F. Cairo, Electric Storage Battery Co.; C. S. Cassels, Henry Disston & Sons; W. R. Chalker, E. I. du Pont de Nemours Co.; Henry Chestnut, Curtis Publishing Co.; J. R. Clemens, Link-Belt Co.; R. W. Coyle, the Midvale Co.; W. Davis Chantry, Laundry Board of Trade of Philadelphia; Frank Devaux, John J. Felin & Co., Inc.; Thomas F. Egan, Jr., Building Owners and Managers Association.

Also: J. A. Finan, Allied Chemical & Dye Co.; F. P. Flynn, Wilkening Manufacturing Co.; R. R. Frederick, Congoleum-Nairn, Inc.; H. Green, Rohm & Haas Co.; William B. Hart, Atlantic Refining Co.; G. L. Haymes, Gulf Oil Corp.; Dr. F. J. Majewski, Rohm & Haas Co.; William Marble, Container Corp. of America; W. A. Morley, Link-Belt Co.; S. S. Paist, Rohm & Haas Co.; Edward Pierson, Philadelphia Textile Manufacturers Association.

Also: R. A. Reeder, Reading Railroad Co.; C. B. Rios, Gulf Oil Corp.; R. J. Scheetz, Henry Disston & Sons; Francis R. Smith, Julian S. Simsohn Co.; F. A. Stewart, Publicker Industries, Inc.; S. Taylor, Philadelphia Electrical Association; Walter Wagner, Philadelphia Electric Co.; G. S. West, Pennsylvania Railroad; Lindsey H. Wolfe, Dravo Corp.

(Messrs. Simpson, Blum, Green, Wagner, and West comprised the steering group of the above committee.)

AIR POLLUTION CONTROL COMMITTEE

Walter W. Sibson, Jr., Proctor & Schwartz, Inc., chairman; William R. Dunham, Jr., manager, production division, chamber of commerce, secretary.

Textile group: James A. Knipe, Philadelphia Dye Works, chairman; Roy W. Bezold, Collins & Aikman Corp.; Geoffrey Tattersfield, Dearnely Bros. Worsted Spinning Co.; C. Carroll Baxter, Jr., Baxter, Kelly & Faust Co.; Jesse Hubscham, E. Hubscham & Sons, Inc.; H. R. Sage, Mutual Rendering Co.

General manufacturing group: Samuel Blum, H. M. Wilson Co., chairman; R. J. Scheetz, Henry Disston & Sons; H. McCane, Container Corp. of America; R. W. Doyle, the Midvale Co.; E. M. Baxter, Budd Co.; W. P. Cairo, Electric Storage Battery Co.; Walter Wagner, Philadelphia Electric Co.; George West, Pennsylvania Railroad.

Service industries group: Fred W. McBrien, Holland Laundry, chairman; Walter Duncan, Bornot, Inc.; Kurt Smith, Penn Sherwood Hotel; John F. Wettig, Tasty Baking Co.; Thomas F. Egan, Jr., Building Owners and Managers Association.

Chemical group: S. S. Paist, Rohm & Haas Co., chairman; T. F. Hobbs, E. I. du Pont de Nemours & Co., Inc.; W. B. Hart, Atlantic Refining Co.; J. A. Finan, Allied Chemical & Dye Co., Barrett division; Douglas Schoerke, Publicker Industries; T. P. Taylor, Jr., Vick Chemical Co.; Dr. L. W. Wasum, Kessler Chemical Co.

Foundries group: William A. Morley, Olney Foundry (Link-Belt Co.), chairman; Nicholas J. Cattie, Jr., American Manganese Bronze Co.; William S. Loeb, Wilkening Manufacturing Co.; William Leopold, Northern Bronze Corp.; Henry J. Kelly, Dodge Steel Co.; James Lanning, Perseverances Iron Foundry, Inc.; Thomas Landis, works manager, Ajax metal division, H. Kramer & Co.

Industrial committees throughout Pennsylvania and the Nation, and a number

of foreign countries, including Canada, England, and India, have expressed great interest in the Philadelphia air pollution control story.

Scores of inquiries were made concerning the city's first air pollution control law, passed in 1948, and a number of requests already have been received for the new law, even though, as legislation, it is less than 2 weeks old.

NEW CLEAN AIR LAW PASSED; CHAMBER AMENDMENTS O. K.'d

The city of Philadelphia—with much volunteer technical assistance from the Chamber of Commerce of Greater Philadelphia—took a giant step this month toward making the metropolis the cleanest city in America—in the air as well as on the ground.

Philadelphia long has been recognized for its clean streets and homes. Just last month, the city won for the seventh consecutive year the title of "Cleanest Major City" in the Nation.

Less spectacular, perhaps, was the fight against smoke, fumes, dust, and odors—a battle against air pollution in which industry of Philadelphia privately has spent more than \$40 million without fanfare or publicity in the past few years and plans to spend more in the coming years.

Represented by the chamber, these industries contributed their thinking to what has been described as a model-air-pollution-control law passed by city council on February 25. The bill was signed into law by Mayor Clark on March 9.

OTHERS FACE SAME PROBLEM

Like the Air Pollution Control Law of 1948, which it replaced, the newest legislation already is being sought out by scores of industrial communities facing the same type of clean air problem as Philadelphia.

Introduced by Councilmen Guerin, Norwitch, and Towey and strongly pushed by Councilman Dallas, chairman of the public health committee, the new law was the culmination of months of study by municipal and industrial leaders, the latter constituting a committee of 30 technical experts of the chamber's air pollution control committee.

As in the case of the 1948 law, this chamber committee contributed volunteer technical services which would have cost the city hundreds of thousands of dollars.

The new law—known as bill 366—was quietly dropped into council's legislative hopper on June 11, 1953, and first became available in printed form on June 19. Less than 1 week later—on June 25—the chamber sponsored a committee headed by Charles G. Simpson, Philadelphia Gas Works, to study the proposed legislation, dividing the group by various segments of industry so that members of individual units had common air pollution problems.

Out of this meeting came the analysis that the major defects of bill 366, in general, pivoted largely around what was unsaid in the law rather than in the specifications it contained.

Thus, five major defects were recognized by the chamber committee. And, when the bill was passed on February 25, it had been modified to the satisfaction of the chamber. Following is a list of the major defects and remedies which the Chamber brought to light:

Defect—The bill shifted away from the educational and cooperative approach of the 1948 law toward one of a more punitive, nature.

Remedy—The chamber, at the invitation of the city's air pollution board, organized a committee of continuing technical advisory subcommittees representing major segments of industry and commerce to review and advise the board on contemplated regulations or changes in them. The continuing nature of these committees assures Philadelphia businessmen as well as those seeking a location here that their problems relating to air pollution control will, as they arise, be given adequate and reasonable consideration.

Defect—The failure to make the law flexible enough to permit realistic handling of cases of undue financial hardship or physical impracticability of compliance arising from a demand for immediate correction of technical violations.

Remedy—The city wrote a provision in the law authorizing administrative officials to establish work schedules for major installations required for compliance, and to allow a reasonable time for execution of such schedules. Abandoned was the initial provision that permitted anyone with a grievance—even though fancied—to bring a businessman before a magistrate.

Defect—The failure to provide special administrative machinery to cope with violations involving the emission of odors. This is a new and totally unexplored

field of air pollution control and lacks any precedents and standards for its enforcement.

Remedy—Recognition in the law of the special nature of odor control. Provision was made for a special appeal procedure calling for hearings before technically qualified persons to insure an intelligent appraisal of the complaints and their validity.

Defect—The attempt to impose, in effect, a sales control measure on all household appliances through the installation and operation of a permit system with vague limits and questionable relation to enforcement needs.

Remedy—Modification of the proposed legislation to an appreciable extent by the reinstatement of the 1948 exemption of household appliances from any permit requirements for less than 3 dwelling units in a building.

Defect—Inclusion of a requirement that all sources of possible air pollution be licensed. The provisions to be retroactive to include existing facilities.

Remedy—This requirement was deleted so that the licensing requirements now apply only to future major installations or alterations in limited cases.

MILLER COMMENTS

Walter P. Miller, Jr., chamber president, commenting on the 7-month campaign by the chamber to modify the new ordinance, had this to say:

"As originally drafted, this legislation would have provoked harassment for the businessman as well as providing a sales-control device on household appliances by universal licensing. Heavy immediate demands on the capital funds of many industries has been averted. The sales control threat has been eliminated. Sound regulations and reasonable enforcement have been insured by a permanent liaison established between the chamber's technical committees and city officials."

Thus was the city's latest air pollution control law finally brought to constructive reality.

While the legislation itself did not go beyond the city lines, the chamber carried a phase of the air pollution control question straight to Congress.

Last week, the board of directors urged enactment of the Hinshaw bill which would provide accelerated amortization of industrial expenditures for air pollution control equipment. Copies of the resolution were sent to Representative Daniel A. Reed, Republican, of New York, chairman of the House Ways and Means Committee and the entire Greater Philadelphia congressional delegation.

The action of the chamber directors brought to mind a statement of J. Harry LaBrum, board chairman of the chamber, on October 19 before the board at the opening meeting of "Cleaner Air Week" in Philadelphia.

Then president of the chamber, LaBrum lauded Councilman Dallas for "displaying a ready appreciation of the problems of Philadelphia business" in the air pollution control problem and hailed a number of companies for outstanding work in combatting air pollution.

LaBrum particularly cited the three railroads serving Philadelphia—the Pennsylvania, Reading, and Baltimore & Ohio, for their dieselization program replacing steam trains; the Philadelphia Electric Co., which has spent \$7,500,000 in the past on air pollution control; and the Container Corp. of America, Henry Disston Co., Philadelphia Felt Co., Du Pont Co., and the Simon Scullin Foundry, Inc.,—all of which have spent many thousands in the "cleaner air" campaign in Philadelphia.

LaBrum also cited the following firms for their volunteer air pollution control programs: Heintz Manufacturing Co.; Publiker Corp.; Delta Finishing Co.; North America Lace Co.; and F. W. Tunnell & Co.

COUNTLESS OTHERS

"There are countless others and sometimes we hope to have a complete listing so that the full story of industry's cooperation may be told," LaBrum concluded.

At week's end last week, Walter W. Sibson, Jr., chairman of the chamber's present air pollution control committee, was analyzing the results of a trip by himself and four other city of Philadelphia and chamber representatives to Pittsburgh to look over administration of that city's air pollution control program, which includes the functions of industrial advisory committees. The group also visited the Mellon Institute to study technological advances in the field.

COMMITTEES PRAISED

Chamber President Miller praised the efforts of Sibson and his air pollution control committee and the prior committee of Simpson which successfully incorporated the industrial "look" in the new law.

"The unselfish efforts of these committee members and others before them has largely contributed to the outstanding position Philadelphia now occupies in the field of air pollution control," Miller said. "Mr. Simpson's group has paved the way for adoption of an exemplary piece of legislation. Now, Mr. Sibson's committee as a whole will serve not only as a 'watchdog' of the administration of the law, but as a 'teammate' in any necessary changes in the legislation."

INDUSTRY JOINS IN PRAISING CHAMBER OF COMMERCE AIR POLLUTION WORK

Here are some pertinent industry comments on the work of chamber committee members on the new air pollution control law:

J. O. Timms, general superintendent, Philadelphia Refinery Gulf Oil Corp.: "May I commend the chamber of commerce and the several working committees on their untiring effort and splendid manner in which this matter was handled? It has been a real service to the public and to industry, in a matter of importance to the welfare and development of the city of Philadelphia."

Thomas P. Egan, Jr., executive secretary, Building Owners and Managers Association of Philadelphia: " * * * the special air pollution committee deserves the highest commendation for the many hours of study and discussion which resulted in the splendid recommendations made to the public health committee of city council on the proposed air pollution control bill 366."

William P. Cairo, legal department, Electric Storage Battery Co.: "Two things I believe stand out clearly as a result of the committee action. One, is that the city will consult with representatives of the chamber in the future in such matters before taking definite action and, two, the recommendations of the chamber will be given serious consideration by city representatives."

Charles G. Simpson, director of finance and accounts, Philadelphia Gas Works: " * * * I have had a lot of experience with chamber of commerce and other organization staff work, but in all this experience I have not seen such devoted hard work as you * * * gave to this ordinance."

CLARK HAILS COOPERATION BETWEEN CITY AND CHAMBER OF COMMERCE

Signing the new air pollution control ordinance into law, Mayor Joseph S. Clark, Jr., hailed the close cooperation between the city and the chamber which paved the way for the unanimous adoption of the legislation by city council.

Clark addressed a gathering of more than 60 city and chamber officials who jammed his reception room in city hall for the formal signing ceremonies. Walter P. Miller, Jr., chamber president, and a number of officials also spoke before the meeting.

The mayor expressed a sincere desire for continuation of city-chamber cooperation and congratulated business on the "enlightened interest" they showed in offering constructive amendments to the new law prior to its passage.

"We can all take great satisfaction in this step forward in solving many of our air pollution problems," Clark said.

ENFORCEMENT WILL GIVE SOLUTION

"Now it has become a fact and I believe that a strict and fair enforcement policy of the new ordinance will provide the solution for many of the city's air pollution problems."

The city said, in a statement released at the ceremonies, that the new program would be directed "toward prevention of violations, rather than processing complaints."

"The cooperative approach to business and industry and the public has resulted in engineering studies which have led to substantial changes of equipment to prevent future pollution," the statement said. "The future program will continue to emphasize: (1) complete elimination of open burning when incinerators are completed; (2) increased requirements for industrial cleanups; (3) and an automatic and fair enforcement policy."

MILLER PLEDGES COOPERATION

Chamber President Miller pledged Mayor Clark the utmost cooperation of the chamber in all matters, including air pollution control. He emphasized that the modern Philadelphia businessman is keenly aware of his civic responsibilities and the need for a "healthful climate" in which business and industry can thrive.

Miller noted that in such a climate greater business payrolls are generated which result in more prosperity for both the businessman and the municipality.

He expressed his regrets that illness prevented the attendance of Charles G. Simpson, of the Philadelphia Gas Works, who was chairman of the chamber's committee "which worked assiduously for 7 months on the legislative phase of the program and brought it to such a successful conclusion."

Councilman Dallas reached the ceremonies too late for the speaking program and Councilman Alexander spoke for her. When she arrived from another important councilmanic meeting, Mrs. Dallas said: "I wouldn't have missed this occasion for the world."

Chairman Walter W. Sibson, Jr., of the chamber's air pollution control committee, and 7 members of his group, attended the ceremonies in a body. They came direct to city hall from a meeting at which they discussed aspects of administration of the legislation.

[From the Philadelphia (Pa.) Inquirer, November 22, 1953]

FOURTH DAY OF FOG FORECAST IN AREA; RELIEF ON ITS WAY—COLD FRONT MOVING FROM MIDWEST MAY CHASE "LID" OF WARM AIR; AIRPORT SHUT DOWN 2 HOURS

The Philadelphia area was shrouded again yesterday and last night with fog, "smog" and "smaze," and the Weather Bureau predicted the same conditions probably would prevail today for the fourth successive day.

Five fatalities were attributed at least in part to reduced visibility on highways.

A freighter and a barge collided on the fogbound Delaware River, and International Airport was shut down for a 2-hour period.

Rain in the afternoon and last night in some eastern areas, including Harrisburg, was too light to cleanse the atmosphere of factory smoke and exhaust fumes that have contributed to the pall that has blanketed sections from North Carolina to New Hampshire for from 3 to 5 days, the Weather Bureau said.

MORE OF THE SAME

"If the rain had been a bit heavier, as had been expected, it would have cleared the air of the particles that help create the generally hazy conditions," the weatherman said. "As it turned out, it looks as if we'll have more of the same on Sunday."

A sickening odor, concentrated in the dense atmosphere, covered a large portion of the central and North Philadelphia districts shortly after 1 a. m. today.

Scores of complaints poured in by telephone to the electrical bureau. City officials said most of the complaints came from points near Fifth Street and Girard Avenue and Eighth and Poplar Streets, although the odor could be detected in a wider area, including sections on North Broad Street.

FAIL TO TRACE SOURCE

Police of the 19th and Oxford Streets station were sent to investigate but failed to trace the source of the offensive odor. Ted Hale, an inspector for the air pollution control board, was called to conduct an investigation.

The forecast for today, aside from more fog, smog—smoke and fog—and smaze—smoke and haze, is cloudy, some rain and little change in temperature.

COLD FRONT MOVING IN

A cold front, however, is expected to arrive here tomorrow and help dissipate the warm-weather-induced atmospheric haze, the weatherman said. He added that while the front has dumped from 7 to 10 inches of snow on some parts of the Midwest, it should be somewhat moderate by the time it reaches Pennsylvania, bringing no snow and a not drastic drop in temperature.

Heavy snows were reported in eastern South Dakota and northern Minnesota, with lighter falls in the upper Mississippi Valley. In the former areas, widespread damage to utility poles and wires was reported.

WARM AIR ACTS AS LID

The low-visibility conditions have prevailed here and elsewhere along the coastal States because the warm weather has been accompanied by a warm blanket of air, it was explained. At night the ground cools off the bottom layer of air, but the warmer air above—motionless because of a lack of brisk winds or heavy rain—acts as a lid which seals in smoke, exhaust fumes, and other foreign particles.

On Friday, when the high was 70 degrees and the low was 36, the average temperature was 53 degrees, well above the normal average of 44 for the date. Yesterday's maximum was slightly lower, but the day's average was still above normal.

The Weather Bureau reported that real fog was recorded from 1:30 a. m. to 8:30 a. m. yesterday. After that the fog lifted somewhat, only to be replaced by the smoke and/or haze conditions.

FLIGHTS RESTRICTED

All flights to and from International Airport were canceled between 7:30 and 9:30 a. m., after which restricted operations were permitted. That meant, an official said, that planes were allowed to land or take off whenever there was a break in the overcast.

The official added that although fog was reported by the Weather Bureau during most of the morning, visibility at the airport was good through most of the night.

"Our ceiling was 20,000 feet or better most of the night, but then it began to get thick up above all of a sudden," he said.

At 8 a. m. visibility in the downtown shopping area was limited to about a block. Along Delaware Avenue motorists reported they could see only about 20 feet ahead. The smog also was particularly thick along the Industrial Highway and the Fairmount Park drives.

NEW JERSEY TURNPIKE FOGBOUND

Motor traffic was slowed in many sections in the early morning. Fog rolled onto the New Jersey Turnpike about an hour after midnight, causing a reduction in the 60-mile speed limit to 35 miles along its entire 118 miles at 1:08 a. m.

The reduced speed limit was lifted between Deepwater, the southern terminus, and Bordentown at 8:45 a. m.; between Bordentown and Hightstown at 9:35; between Hightstown and Woodbridge at 10:16; and between Woodbridge and Bergen interchange at the northern end at 11:02 a. m.

The New York metropolitan area had one of its worst fogs on record as it was blanketed for the fifth straight day. Operations at Idlewild and LaGuardia Airports were shut down completely Friday night and yesterday morning. Incoming flights were diverted to Newark, Washington, and Boston when visibility was reduced to 10 feet.

With traffic moving at a crawl, police in Queens and Nassau County warned motorists to stay off roads.

In Connecticut, road traffic was snarled and more than 20 accidents were reported on one stretch of the Merritt Parkway.

SMOG'S INGREDIENTS

Dr. Morris B. Jacobs, director of New York City's air pollution control laboratory, gave a specific explanation of some of the things that get into the air to create smog or smaze: "In addition to soot, there are particles of such things as fly ash, dust, earth, tars, asphalt, grit, loose paint from buildings and windows, rubber rubbed off tires by friction—and anything loose and likely to blow upward."

A number of persons were treated in Elizabeth, N. J., hospitals for eye or throat irritations caused by the concentration of air particles in that hard-hit north Jersey region.

FIVE INJURED IN CRASHES ON FOG-CLOAKED ROADS

Robert Van Hout, 27, of 5423 Pentridge Street, suffered a fractured left hip, chest injuries and severe face cuts when the car he was driving crashed into a house at Route 202 and Morris Road, Whitpain township, Montgomery County.

MISSES DETOUR SIGN

Officer Earl Kelly, of Whitpain township police, said Van Hout missed a detour sign because of the fog. The car skidded across a lawn and crashed into a bay window in the home of George Kerr, 96-year-old former tennis pro. Neither Kerr nor his housekeeper, Antonia Rommel, was injured, but Robert Harmer, 16, of 5422 Pentridge Street, Van Hout's passenger, suffered head cuts. He was treated at Montgomery Hospital, Norristown.

The youth told Kelly they planned to hunt pheasants nearby.

YOUTH IS INJURED

Richard Del Casti, 16, of 4020 Drexel Avenue, Pennsauken, was injured seriously in a similar accident at Route 88 and the Church Road circle, Delaware Township, N. J. He was taken to Cooper Hospital, Camden, where physicians said he suffered a fractured left rib, multiple cuts of the head and chest and skull fracture.

He was in a car driven by Albert Golbacker, Jr., 17, of Roosevelt Avenue, near Crescent Boulevard, Pennsauken. Golbacker told police his brakes failed to hold as he rounded the fog-shrouded circle. The car traveled 78 feet through a yard, knocked over playground equipment and finally crashed into the home of Mr. and Mrs. Alexander Nardone, damaging the sun porch. Golbacker was treated for a fractured nose. They, too, were starting on a hunting trip, Golbacker said.

The fog was blamed for causing Merrill W. Holland, 50, of 767 Walnut Street, Camden, to lose control of his car two blocks from his home. The automobile mounted the sidewalk and struck the front of the Friendship Baptist Church at 924 Walnut Street. Holland was detained at Cooper Hospital with head injuries.

[From the Philadelphia (Pa.) Inquirer, March 12, 1954]

EXPERT PREDICTS "RAIN" OF WASTE BY INCINERATOR

Waste matter from the stack of the proposed city incinerator at Fox Street and Abbottsford Road would fall to the ground in the surrounding area for as great a distance as 2 miles, a meteorologist testified yesterday at a hearing on a suit to block the incinerator's construction.

Francis A. Davis, Jr., WFIL-TV, weatherman and a professor of physics at Drexel Institute of Technology, said that temperature inversions prevalent in Philadelphia put a cap on the atmosphere which would cause the greatest part of any waste matter to remain in the area of the incinerator.

WIND CALLED FACTOR

He said this condition would exist anywhere from one-eighth of a mile to 2 miles, depending on the wind velocity and turbulence.

The hearing was 1 of approximately 12 held on the suit brought by John B. Kelly, contractor whose home is near the site, and Queen Lane Park, Inc. It is being heard by Judge Vincent A. Carroll in Common Pleas Court No. 2.

Walter Biddle Saul, an attorney for the plaintiffs, said he had called Davis as a witness to refute previous testimony in which the city sought to prove that any matter from the stack "would blow out over the Atlantic Ocean."

NUISANCE SEEN

Under cross-examination by City Solicitor James L. Stern, Davis admitted that the same situation as would be caused by the incinerator could be applied to all chimneys in the city.

Davis said the concentration of the matter in the air would be enough to create a nuisance in the area.

At previous hearings, it was testified there would be 2 tons of particulate matter from the stack every 24 hours. The proposed incinerator would have a 500-ton capacity.

Another hearing was scheduled for next Tuesday.

[From the Philadelphia (Pa.) Inquirer, April 2, 1954]

SCIENTIST BACKS INCINERATOR PLAN

Particles of matter thrown into the air by operation of the proposed incinerator at Abbottsford Road and Fox Street would not appreciably increase air pollution in the area, Dr. Hurd C. Willet, of the Massachusetts Institute of Technology, said yesterday.

Dr. Willet, who is a professor of meteorology, testified before Judge Vincent A. Carroll that "measurement of particulate matter in the air would be the same in the area of the incinerator whether it was there or not."

[From the Philadelphia (Pa.) Evening Bulletin, April 1, 1954]

CITY AIR SO FOUL INCINERATOR'S O. K., EXPERT TESTIFIES

A professor of meteorology testified today that an incinerator at Abbottsford Avenue and Fox Street would cause no detectable or measurable difference in the nearby atmosphere.

The air in Philadelphia already is so polluted, said Dr. Hurd C. Willet, of the Massachusetts Institute of Technology, that the incinerator could have no appreciable effect.

He testified in behalf of the city, which is defending a suit brought by John B. Kelly and other residents of East Falls, to restrain the city from building the incinerator. Judge Vincent A. Carroll has been hearing testimony in the case since early in January.

Dr. Willet's testimony was at odds with testimony given several weeks ago by a former pupil, Francis A. Davis, Jr., now an instructor in meteorology at Drexel Institute of Technology. Davis said that in his opinion the incinerator would pollute the air within a certain radius.

[From the Philadelphia (Pa.) Inquirer, November 23, 1953]

LIGHT WINDS, DRIZZLE EASE 5 DAYS OF SMOG

Light winds and a morning drizzle yesterday helped dissipate the smog which kept Philadelphians wheezing and coughing for 5 days.

Some real relief from the smoke and the fumes came about noon, when the heavy atmosphere thinned out, permitting the sun to break through the barrier of haze.

RELIEF PREDICTED

Added relief was expected today, according to the Weather Bureau, but, before it comes, a heavy fog will blanket the area, dissipating probably early in the morning.

Showers today are expected to clear the air while moderate southerly winds will very likely carry away the last remnants of the smog.

Until noon yesterday, conditions were not much better than they had been in the 4 previous days.

ANCHOR

An early about a dozen. It was no come up at 11 a. m. About

the International Airport and in the Delaware Breakwater. City to permit the ships to get at a standstill until about

city, a particularly acrid complaints, particularly from

Inspectors for the air pollution control board were sent out early to conduct an investigation, but at a late hour yesterday were unable to determine the cause.

Temperatures yesterday continued high, thermometer registering 70 degrees at about 4 p. m. The lowest temperature was 53 at 7 a. m., with an average of 18 degrees above normal for the date.

Although the smog was not seriously felt here until Wednesday, the Weather Bureau said it had started gathering 9 days ago, increasing in intensity until it began to affect the everyday lives of area residents.

TEST INCOMPLETE

Throughout the 5-day period, members of the air pollution control board were busy making tests and analyses to determine what Philadelphians had been breathing during the smog period.

Newell K. Chamberlin, one of the board members, said the tests are incomplete, but there was no doubt ash, dust, tars, asphalt, grit, and paint particles contributed to the discomfort of the city.

TRAPPED IN AREA

Present in the air also were sulfur dioxide and formaldehyde but not in enough quantities to affect in any degree the health of the residents in this area, Chamberlin said.

The atmospheric inversion—a layer of cold air next to the ground held down by a layer of warm, dry air—trapped just about everything, Chamberlin explained.

Smoke from homes and factories and fumes from automobiles, trucks and buses contributed to the discomfort, Chamberlin said.

OFFICIALS CLAMP DOWN

During the entire period, he pointed out, the air pollution board clamped down on dump fires.

Throughout the 5-day period the board's inspectors, employees of the Philadelphia Gas Works and the police department were kept busy enforcing regulations against smoke and fumes, hoping to prevent even a more serious condition.

In the meantime, Dr. Norman K. Ingraham, acting health commissioner said the smog had little if any effect on the general health of the residents.

NO NEED FOR MASKS

He said there was no particular need for masks or other filters, since the smoke and fumes contained only minute quantities of harmful chemicals.

"There are always fumes and industrial gases around any large city. In some areas the smog was serious enough to cause irritation of the eyes and membranes but there was not enough pollution to cause any prolonged illness of germ diseases."

Smog and fog, which obscured vision on highways in many areas of the eastern seaboard, prompted Pennsylvania State police to issue a warning to motorists.

SPEEDS REDUCED

Slower speeds were advocated where visibility was poor. Fog they said, has been particularly heavy in the Pocono Mountains.

The smog continued unabated in New York with no appreciable relief in sight. Fog held up the arrival of the Cunard liner *Parthia* for 18 hours.

Upper New Jersey was no better off, and a murky blanket continued to cover the area. Speeds on the New Jersey Turnpike continued to be held down to 35 miles per hour.

[From the Philadelphia (Pa.) Inquirer, November 19, 1953]

SMOG CURTAIN ENVELOPS CITY; STINGS EYES—FREAKISH WEATHER CONCENTRATES SMOKE; MAY LAST 36 HOURS

A sun-dimming curtain of fog and smoke enveloped the Philadelphia area today. It caused coughing and stung the eyes of thousands.

It was reportedly caused by a freak weather condition which concentrated the normally dissipated industrial smokes and odors.

The air pollution control board ordered all city dumps shut down and took other steps to combat the smog.

MAY LAST 36 HOURS

The Weather Bureau reported, however, that the haze is expected to hang over the city for another 24 to 36 hours.

It emphasized that the phenomenon, though "very inconvenient," is not dangerous.

The smog was drawn northeastward across the city from the vicinity of International Airport in southwest Philadelphia.

The first telephone calls to the electrical bureau came from the Eastwick neighborhood about 8 a. m.

PHONES JAMMED

Edgar Grim, bureau chief, had them switched to the air pollution board in city hall annex.

In the next hours the board was flooded with hundreds of calls as the blanket covered the city. The Weather Bureau's phones also were jammed.

Weatherman Henry P. Adams gave this explanation of the haze:

Due to stagnated, windless air conditions, a pocket of warm air extending to a height of about 1,000 feet above the ground was quite a bit warmer than the ground air.

SETTLE TO GROUND

This "inversion" acted like a blanket. The smoke and gases from industrial plants, instead of going up and up until dissipated, hit the air ceiling and settled back on the ground.

"As soon as we get some wind the inversion will be wiped out," said Adams. But he added that none is expected until late tomorrow at the earliest.

Adams said similar hazy conditions extend generally from Baltimore to New York. But it is intensified in the industrial areas.

ORDERS GO OUT

The city's 4 dumps and twenty-odd private ones it uses were ordered shut down on orders of Newell Chamberlin, executive director of the air-pollution board.

Hendy D. Harral, deputy street commissioner in charge of sanitation, said the orders started going on last night when Chamberlin learned the weather was closing in.

He said it was the first time in his knowledge the dump burning has been stopped because of atmospheric conditions.

Chamberlin announced that, in addition to closing the city dumps, his office has contacted the big industrial firms in the city.

"We asked them to check their operations and do whatever they can to cut down on the smoke," he said.

ANALYSE AIR

He said his staff made an analysis of the air this morning at its laboratory at 19th and Lombard Streets.

"We found absolutely nothing of serious importance," he said.

Along with the smarting of eyes and coughing the smog brought odors which varied from place to place. One man reported that the air smelled like burning paint.

International Airport said that beginning at 7:30 the conditions caused delays in about half a dozen flights coming in and taking off. By 9 a. m. conditions were back to normal.

LANDS UP-RIVER

The haze after
Agawam.
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private plane. Walter O'Connor, 46, of
contractors to Philadelphia on business

the Market Street wharf. He
so w 2 miles north where
river opposite the House

of Correction wharf at Rhawn Street, taxied to the wharf and let his passengers out there.

[From the Philadelphia (Pa.) Inquirer, November 21, 1953]

THAT SMOG IS REALLY SMAZE AND IT STILL MAKES TROUBLE

For the second successive day, Philadelphia and the eastern seaboard were plagued yesterday by a smothering, eye-smarting blanket of smog, with no relief promised by the weather bureau until some time today.

The phenomenon, which extended from North Carolina to New Hampshire, was the product of a combination of factory smoke, motor exhaust fumes, and haze. In fact, said the weather bureau, the condition should not be called "smog" at all.

SHOULD WE SAY "SMAZE"

Smog, a spokesman for the bureau pointed out, is a contraction of the words "smoke" and "fog." What has been bothering Philadelphia, he added, might better be called "smaze." No fog has been involved in the present situation, it was explained, because the humidity rate has been too high to produce it.

Whatever its name, Philadelphia's fouled-up atmosphere was blamed yesterday for thousands of cases of smoke-irritation treated at hospitals throughout the area; for visibility so low that it hampered landings and takeoffs at International and other airports, and for slowed traffic, minor accidents, and a general feeling among the populace that life was not all it should be.

AIR POLLUTION LAW

The blanket of dirty yellow which hung over the city and crept into homes and offices whenever a window was opened led Councilman Constance H. Dallas, chairman of city council's health committee, to announce plans for an early meeting of that group to consider a new air pollution control ordinance.

The present ordinance, she pointed out, "must have some teeth put in it" before it can be made effective. The proposed new ordinance will be in the nature of an amendment, designed to do just that. She indicated one of the objective will be to make penalties for air pollution much more stringent.

One of the causes of the smog here, an almost complete lack of wind, was being remedied by degrees late yesterday. The weather bureau reported that from Thursday noon to yesterday noon, the speed of the wind was less than 2 miles an hour, but that during yesterday afternoon it had increased gradually to a rate of 8 to 10 miles an hour.

The wind, moving ahead of a storm coming eastward from the Mississippi Valley, is expected to increase in speed this morning, and dissipate the stagnant air mass which has lain over the coastal area.

BLACK SNOW IN TIOGA

The stagnant atmosphere was blamed in part for showering the vicinity of Broad and Ontario Streets with oily black soot yesterday morning.

The soot was traced to the smokestack of the Temple University Medical School. A lack of pressure in the school's boilerroom was reported to have caused incomplete combustion of oil in the heaters, so that partly burned oil poured from the chimney. The aerial lid over the city kept the soot from being dissipated in the upper air and caused it to fall like black snow on the surrounding area.

DUMPS REMAIN CLOSED

The city's 4 dumps and some 20 private ones remained shut down yesterday on orders from Newell K. Chamberlin, executive director of the Air Pollution Control Board, to keep their smoke from adding to the smog conditions.

"They'll stay closed down until the haze passes," Chamberlin said. He added that the city's larger industrial plants were doing everything in their power to reduce smoke output during the present situation, in cooperation with his office.

[From the Philadelphia (Pa.) Evening Bulletin, November 20, 1953]

SMOG BLANKETS CITY SECOND DAY; RELIEF DUE TOMORROW—CITY, INDUSTRY CURB SMOKE TO EASE DISCOMFORT—EYES OF THOUSANDS AFFECTED; WIND IS EXPECTED TO CLEAR AIR

A discomforting blanket of smog, far worse than yesterday's, closed in again today over the becalmed Philadelphia.

At noon, visibility was cut to a quarter of a mile at the Weather Bureau's downtown station in the Customhouse, Second and Chestnut Streets.

At the same hour yesterday, the visibility was a half mile.

Visibility at International Airport was three-quarters of a mile. Yesterday it was a mile and a half.

An airport spokesman said operations were normal.

As the afternoon wore on, conditions improved somewhat. The downtown weather office reported visibility of about three-quarters of a mile, International Airport about a mile.

WEATHER BUREAU EXPLAINS

The Weather Bureau, in explanation of the growing density of the smog—fog and smoke—that it was due to the accumulation of smoke, dirt, dust, and impurities in the air in the past 24 hours.

To hold the impurities to a minimum, the city kept all its dumps shut down and called on industry to curtail its smoke-producing operations.

The Weather Bureau said it didn't expect any relief until tomorrow when some winds, moving up the coast from a storm which developed off Florida, are expected to blow into this area.

There is also a possibility of rain tomorrow afternoon.

"The wind will tend to dissipate the haze," the forecaster said. "If it rains," he added, "it should really cleanse the air."

EYES BURN

Thousands reported eye, nose, and throat irritation yesterday afternoon as the first effects of the smog were felt in many sections of the city.

Among them were 25 employees of the Unity Machine & Tool Corp., 2725 East Westmoreland Street.

Meyer M. Katz, president, said the workers first complained of illness about noon and asked that all the windows be opened.

This was done. When the employees still complained of headaches and smarting eyes, operations were shut down and the workers went outside.

BACK TO WORK

Later, 10 women employees, some in a state of near collapse, were taken to Northeast Hospital where oxygen was administered. Most of them were back on the job this morning, Katz reported.

Presbyterian Hospital reported treating two persons who complained of a burning sensation in the eye.

Newell K. Chamberlin, executive director of the air pollution board, yesterday ordered the city's 4 dumps and twenty-odd private ones shut down as soon as reports of the distressing effects of the smog began to pile up.

"They'll stay closed down until the haze passes," he said.

He said 40 of the largest plants were asked to cooperate by taking whatever steps are necessary to discharge the least possible amount of smoke without hurting their operations.

NEW TESTS MADE

"They are leaning over backwards to go along with us," Chamberlin said.

He also said that additional tests taken by his staff last night again showed there are no impurities of "serious importance" in the air.

In Camden, Walter F. Schwartz, the city's smoke control director, ordered all industrial plants to reduce smoke through controlled firing.

He made two complete tours of the city last night in a police car and asked police to pass along his order to plants in their districts.

MEASURES IN NEW JERSEY

Dr. Daniel Bergsman, New Jersey commissioner of health, said that conditions also were worse than yesterday in some sections of New Jersey, although they have not reached serious proportions.

Dr. Bergsman said in Trenton that virtually all of New Jersey's major industries have been contacted and all pledged to alter operations to alleviate conditions.

"I am requesting that the people of New Jersey cooperate in lessening the concentration of hazardous smoke or fumes discharged into the atmosphere," he said.

He recommended:

The burning of refuse at public dumps be strictly prohibited.

Industry minimize all processes which discharge smoke or fumes, including the blowing of furnace tubes.

Residents stop burning leaves or other refuse until the smog lifts.

[From the Philadelphia (Pa.) Evening Bulletin, March 1, 1954]

NEW START FOR CLEAN AIR

Almost blotted out of public attention by the charter amendment excitement was council's unanimous passage last Thursday of a new air pollution control ordinance.

With a new chief for the health department's division of air pollution control, the city now seems ready to renew the battle for cleaner air.

There is much to be done, and while a great deal is known about keeping the air clean and pure, a great deal is still to be learned. Air polluters are not necessarily wicked or thoughtless people. They are largely people who need guidance, and science is not yet prepared to give that guidance on some of the more difficult situations.

The new ordinance has provisions for penalties, but it is likely that the health department will be relying more heavily on persuasion and education than on the big stick of prosecution. In many cases more effective methods of keeping the air clean will bring more efficient and economical operation. Putting to good use what once was allowed to escape as waste is an old story. Even the household chimney is wasting fuel when it smokes.

The problem of air purity resembles that of water purity in many respects. One striking similarity is that the impurities come so easily from outside the confines of the local regulating authority. That puts limits on the effectiveness of control by local governments and stimulates thinking about the need for a regional attack.

[From the Philadelphia (Pa.) Sunday Bulletin, November 22, 1953]

SMOG DARKENS CITY FOR THIRD DAY, WILL GET WORSE—RAIN MAY MAKE HAZE THICKER; WIND IS NEEDED

The smog continued to plague Philadelphia area residents last night, with no sign of real relief until tomorrow afternoon.

The freakish mixture of smoke and fog hung over the area all day and carried into the night, cutting visibility down to a mile and a half.

Some light rain expected this afternoon should give only brief, temporary relief, then the smog will get thicker again in the evening, the weather bureau said:

"As a matter of fact," a bureau spokesman said, "what little rain we'll get actually will serve to make the fog thicker.

WIND NEEDED

"What we need is a wind of at least 15 miles an hour to dissipate the smog."

Yesterday, the third day of the smog, there was a breeze here of less than 7 miles an hour during only 50 percent of the day.

A strong, cold system moving across the Mississippi Valley was supposed to get here on Friday and dissipate the smog. But it was blocked by a high-pressure system off the east coast, and it didn't even cross the Appalachians.

SHIP COLLISION

Heavy fog early yesterday caused a freighter-barge collision in the Delaware River and shut down operations at International Airport. A number of fog-caused automobile accidents also were reported.

The river collision occurred at 6:50 a. m. off Gibbstown, N. J., between the Swedish freighter *Grunssunda* and the Interstate Barge No. 4, an oil barge which was being towed upriver.

The 2,394-ton *Grunssunda*, bound for Baltimore with general cargo, including ore, suffered minor damage at the bow. The barge which was empty, received a hole above the waterline. No one was hurt.

RESUME TRIPS

Residents along the river heard the crash but could see nothing, and it was not until a Coast Guard patrol boat found the two vessels anchored off Tinicum Island about 8 a. m. that it was learned what had happened. Both later resumed their trips.

The smog hung over the river all morning, dropping visibility to zero and clamping a lid on virtually all ship movement. When it eased about 12:30 p. m. the river traffic picked up.

International Airport was totally shut down in a zero-visibility, zero-ceiling situation from 7:30 a. m. to 9 o'clock. It then was opened only to instrument flying, and stayed that way all day, as the ceiling rose to a mile and a half.

CAMDEN CRASH

Fog in Camden at 7 a. m. caused a collision that tied up traffic for more than an hour at Broadway and Market Street.

A pickup truck driven by Nelson R. Paradisa, 45, of Sycamore Street, Camden, collided with a car driven by Smith E. Doanes, Jr., of Maple Shade, N. J., police said. The truck overturned but neither driver was hurt.

The fog also was blamed for an accident on Walnut Street, Camden, at 4:50 a. m. Police said a car driven by Merrill W. Holland, 50, of 767 Walnut Street, Camden, went out of control over the curb and crashed into the Friendship Baptist Church, 924 Walnut Street. Holland was taken to Cooper Hospital, Camden, with head injuries.

Smog over the New Jersey Turnpike brought a reduction in the speed limit to 35 miles along the entire span at 2 a. m. The regular 60-mile limit resumed at 11 a. m.

Early-morning traffic in the city moved at a snail's pace in many sections, particularly along the East and West River drives and Industrial Highway.

There were fewer reports of coughing, sneezing, and eye inflammation due to the foul air because there were fewer people in the city. But the Weather Bureau continued to get calls about it.

The ban against burning trash and rubbish at the city's four dumps and the private ones it uses was in effect for the third straight day.

In addition, Deputy Fire Commissioner George E. Hink asked residents to be particularly careful about fires.

NO BIG FIRES

"We haven't had a multiple alarm fire since this condition started," he said, "and we're keeping our fingers crossed that we won't have one until it's over."

He pointed out that the heavy smoke of a fire added to the noxious fumes already in the air would make the firefighters' job that much tougher.

Weather man Henry P. Adams said that the warm air "roof" over the cooler ground appears to be moving out to sea.

That, plus expected showers and southerly breezes should clear the air by Monday, he said.

[From the Philadelphia (Pa.) Evening Bulletin, November 21, 1953]

SHIP AND BARGE COLLIDE IN FOG ON DELAWARE—COAST GUARD HUNTS CRASH SCENE WITH VISIBILITY NEAR ZERO

A Swedish freighter collided with a barge under tow in the fog-shrouded Delaware River off Gibbstown at 6:50 this morning.

No one was hurt in the crash of the outbound 2,394-ton freighter *Grunnsunda*, of Stockholm, and Interstate Barge No. 4, which was proceeding up river under tow of the tug, *Elizabeth S. Hooper*.

The *Grunnsunda* suffered minor damage at the bow. A hole was stove in the barge above the waterline. Both vessels anchored off Tinicum Island.

They were found by a 40-foot Coast Guard picket boat that put down river from Gloucester, searching through the fog after riverbank residents reported sounds of a collision on the river at 6:50 a. m.

RECEIVE MESSAGE

The residents could see nothing, however, and it was not until 8 a. m. that a message from the picket boat was received by Lt. I. C. McLean, at Coast Guard headquarters, clearing up the mystery of what had happened.

One of those who heard the crash was Howard Perry, nightshift pumphouse operator at the Atlantic City Electric Co. plant on the river at Gibbstown. He said:

"Suddenly there was a blast of whistles and horns sounding back and forth. I could hear men hollering and chains rattling.

"Then I heard what sounded like a collision. It was metal grinding together. The tide was going out and the sounds drifted down river."

NEAR TINICUM ISLAND

Perry telephoned the powerplant and it notified Gibbstown and Paulsboro police who in turn telephoned the Coast Guard.

The sounds of distress on the river were still audible when Gibbstown Patrolman Louis Triono reached the scene.

He placed the point of the reported collision between Tinicum Island and the Jersey shore, about midway between the Philadelphia Naval Base and Chester.

A Philadelphia police harbor patrol boat also headed for the scene. It reported the fog thinning out with visibility ranging between 50 and 100 feet.

CEILING ZERO

At midnight, visibility at International Airport was 2 miles but got worse during the night, dropping to zero at 7:30 this morning.

The ceiling also hit zero about the same hour, shutting down all operations for the time being.

"Our ceiling was 20,000 feet or better all night long but all of a sudden it got thick up above," an airport spokesman said.

At 8 a. m., Henry P. Adams, the weatherman, said visibility was limited to a block at his downtown offices in the Custom House, 2d and Chestnut Streets.

TRAFFIC CRAWLS

The smog at that hour also remained dense throughout the area, slowing motor traffic to a crawl in many sections.

Police said the smog was thick on both the East and West River drives. On the Industrial Highway "you could cut it with a knife," one policeman said.

Delaware River Bridge police said they couldn't see across the bridge. In spots along Delaware Avenue, drivers couldn't see more than 20 feet ahead of them.

The smog began to roll in again on the New Jersey Turnpike at 1:08 and at 2 a. m. the speed limit was reduced to 35 miles along its entire length.

"LID" MAY BLOW AWAY

Adams said that the high pressure area responsible for the murky conditions of the last 3 days is now moving slowly off the Virginia coast.

It may be far enough out at sea by tonight, he said, to permit the wind to get around to the south and blow away the "lid" that has held stationary the ever-increasing accumulation of fog and smoke in the air.

The "lid" has been a mass of warm air just above the layer of cooler air near the ground.

Adams also expects some rain this evening and tomorrow. This, he said, should really cleanse the atmosphere of the smog.

At 4:50 a. m., Merrill W. Holland, 50, of 767 Walnut Street, Camden, lost control of his automobile on fog-shrouded Walnut Street, Camden.

The car went up over the pavement and crashed into the Friendship Baptist Church, 924 Walnut Street. Holland was taken to Cooper Hospital, Camden, with head injuries.

GAS BURNERS BLAMED FOR MAKING 25 SICK

The illness of about 25 employees of the Unity Machine & Tool Corp., 2725 East Westmoreland Street, Thursday, was due to fumes from gas burners, not the heavy smog, it was reported today.

Newell K. Chamberlain, executive director of the division of air pollution of the public health department, said that Meyer N. Katz, coowner of the firm, reported the burners were responsible.

Chamberlain said Katz told him the operational difficulties are now being corrected.

The plant closed down temporarily in the midst of the worst of the smog when the workers complained of headaches and smarting eyes.

[Editorial]

THAT SMOG IN YOUR EYES

One thing the smog of the last 2 days has done is to make more residents of Greater Philadelphia more conscious than ever of the extent of air pollution.

At other times they can see the smoke, and if they come in from the suburbs, can slow, on a clear morning, the pall of smog that overhangs the city. But they don't encounter the unseen fumes in quantity. It takes a phenomenon like this to make them conscious of the pollution that normally rises and is carried off by the wind.

The probability is that the daily output of smoke and fumes in the area has been no greater than normal. But the escape channels have been blocked by the freakish air conditions.

The air pollution control board has made progress, especially in cutting the amount of factory smoke. But that apparently is the lesser of the evils, as the eye smarting atmosphere this week has demonstrated.

It is fortunate that the occasions when we have such conditions are rare. And it may be fortunate, too, that we have had this demonstration, for it seems likely to bring greater public support behind the work of the control board.

[From the Philadelphia (Pa.) Inquirer, November 23, 1953]

WINDS, RAIN END SMOG—FIFTEEN HUNDRED LANDED AT AIRPORT—EIGHT AUTO DEATHS ATTRIBUTED TO 5-DAY "BLACKOUT"

Brisk winds and light rains brought an end to Philadelphia's 5-day smog last night and relief to residents who had been bothered by eye-smarting and throat-scratching conditions.

The winds, averaging up to 20 miles an hour, were the forerunners of a cool front, expected this afternoon, the United States Weather Bureau station at International Airport reported.

Here since Wednesday, the smog had caused eight deaths and injuries to many others on fog-shrouded highways. It was a mixture of fog, smoke, and haze, and prevailed over much of the eastern seaboard.

As the winds, blowing in gusts up to 30 miles an hour, increased during the evening hours, they pushed the smog into the Atlantic Ocean. Land areas then were cleared for the cool front, which had remained in a stationary position over Ohio, the Weather Bureau reported.

Visibility increased and during the early morning fog may develop in scattered spots by local conditions.

According to the weather station, fog may develop in scattered spots by local conditions.

First indications that relief from the smog was on its way came shortly after noon yesterday. At that time, the heavy atmosphere thinned out, permitting the sun to break through the barrier.

Until that time, conditions were much the same as they had been on the previous days of the smog. Fog during the morning had hampered air, shipping, train and auto travel.

PLANE WITH 56 RETURNS SAFELY IN EMERGENCY ALERT

More than 1,500 passengers were landed at Philadelphia International Airport last night when fog closed down almost every other air terminal in the East.

Among them were 56 persons bound for Miami whose plane had to return to the airport minutes after takeoff because of engine trouble.

EMERGENCY LANDING

Runways were cleared and fire equipment was dispatched to the airport when the pilot radioed he was returning for an emergency landing. Although one of its propellers was feathered, the plane landed without incident.

The terminal started jamming up between 7 and 8 p. m. when Idlewild, LaGuardia, and Newark Airports were ordered closed because of the thick fog.

BUSES HELP OUT

Eleven PTC buses were pressed into service to help shuttle the New York-bound passengers to 30th Street Station. They augmented the regular fleet of airport vehicles.

Albert V. Anderson, airport superintendent, after receiving word of the weather situation at the other airports, called extra maintenance crews and guards from their homes.

[From the Philadelphia (Pa.) Inquirer, January 28, 1952]

SMOKE CONTROL BY HOMES URGED

The Air Pollution Control Board called on city council yesterday to extend its 1948 smoke-abatement law to the chimneys of Philadelphia's 500,000 private homes.

It recommended that smoke inspections be made of all new heating installations in 1- and 2-family houses and that a reasonable fee be levied on the owners to pay the cost.

The seven-man board, headed by E. Walter Hudson, is the policymaking agency for the air pollution control division of the department of public health. The division began functioning in 1949.

SMOKE PROBLEM LICKED

In a report on the division's 3-year progress, the board said Philadelphia's industrial smoke problem was all but conquered.

Railroads have cut their smoke by 85 percent. Factories and buildings have spent thousands of dollars on smoke reduction. Complaints of residents about oppressive smoke have dropped sharply.

But the board reported less progress in curbing dusts, gases, and vapors, which are hard to measure, and offensive odors and household smoke, which the division has no authority to control.

COMPLAINTS CITED

"Consideration should be given to extending the ordinance to cover 1- and 2-family dwellings," it said. "The division now receives complaints which must be serviced, and yet has no authority to order anything to be done.

"It does try to educate the homeowner. If 1- and 2-family dwellings were included, the staff would have to be increased, but additional revenue would take care of the added cost.

"A reasonable fee could be charged that would not be a hardship to the homeowner and, with the inspection of equipment by the division, there would be a protection to the homeowner against an improper new installation."

The board claimed heartening success in banishing Philadelphia's industrial smoke nuisance.

It cited by name 23 plants, hospitals, and buildings that had gone to extraordinary expense to change boilers, install collectors, scrubbers, vacuum jets, and other devices, change fuels, and even eliminate their powerplants in order to stop blackening the air with smoke.

Railroads here have spent \$20 million to cut smoke—by trading coalburners for diesel engines, changing fuels and revising roundhouse firing methods. The board said the Reading Co. intended to "eliminate all steam jobs in Philadelphia by the end of 1952."

ELUSIVE VAPORS, ODORS

But dusts, vapors, and fumes elude control, the board said, because they cannot be measured to determine whether they meet standards. A Franklin Institute research study recently was the first attempt to collect and measure offensive odors, it said.

The board pleaded strongly for more funds and more help. It said air pollution control cost Philadelphia only \$22,000 last year, whereas five smaller cities spent from \$79,000 up to \$664,889 for the same work.

Not the least startling of its findings, the board said, was this: "In no single instance has there been any political interference (with enforcement of the smoke law) by any individual or group."

[Editorial from the Philadelphia (Pa.) Evening Bulletin, January 29, 1954]

PROGRESS TOWARD CLEANER AIR

Philadelphia's efforts at air pollution control and especially abatement of the smoke nuisance, will be extended to the individual householder if the Air Pollution Control Board's recommendations are adopted. Its 3-year review of activities of the division points to the huge expenditures made by industries and railroads in eliminating smoke and obnoxious odors.

The work cost the city only \$22,000 last year, compared to expenditures running into hundreds of thousands in some other cities. Success of the effort, however, is not measured by the amount of money spent. A high degree of cooperation has been obtained, and work of the railroads in replacing steam locomotives with diesels has been particularly effective.

Few coal-burning furnaces are now installed in new Philadelphia homes and apartments, and consequently the smoke nuisance from this source is diminishing. There are some flagrant offenders among industrial plants, in spite of the general cooperation, and there seems little reason now for not cracking down on them.

The dust that filters through windows and doors, no matter how tight they are, is one of the miseries of central city life. Any reduction in this nuisance will be welcomed.

[From the Philadelphia (Pa.) Bulletin, February 24, 1954]

SOLIDS IN OUR AIR

Walter Chambers, Research Director of the United States Environmental Protection Agency at Cincinnati, New York City ranks fifth among cities in the number of removable particles in its central city air.

Philadelphia is not far behind New York—or should one say higher? At any rate, it has more than New York and the rest of the country. Air pollution authorities in Philadelphia think it is not a normal quantity of such particles, but rather a high one, since the measurement and control have not been very thoroughly worked out, is the fact. Among them, are periodically collecting specimens of air and sending them to the environmental center for study.

Planning of a system of reporting by which cities can compare their air problems and their success in solving them with other cities. The analogy of the Uniform Crime Statistics

The quantity of removable particles in the air is of course only one of the subjects with which air-pollution officials concern themselves. Impurities and odors are others. With the increasing attention given to the subject in Philadelphia and elsewhere, it looks as though better things were in store, though the problems are very difficult and the solutions call for much money and patience.

[From the Philadelphia (Pa.) Inquirer, February 25, 1954]

BOARD OF HEALTH VACANCY FILLED

Mayor Joseph S. Clark, Jr., yesterday appointed Mrs. Henderson Supplee, Jr., to the board of health. She will fill the vacancy caused by the resignation of Mrs. David Remer.

Mrs. Supplee is the wife of Henderson Supplee, Jr., president of the Atlantic Refining Co. She has been active in civic organizations, especially in the area of health. Mrs. Supplee is president of the Visiting Nurse Society of Philadelphia, a member of the Community Nursing Bureau of Metropolitan Philadelphia, and chairman of the Women's Board of Fife-Hamill Memorial Health Center.

DUMP OPERATORS FINED FOR FIRES

Two Northeast Philadelphia dump operators, charged with illegal night burning, yesterday were fined \$5 each by Magistrate Elias Myers, who warned the two that a repetition of the offenses would bring much stiffer fines.

Myers told Andrew Hawthorne, of Orthodox Street near Bath, and James Anthony, of Butler Street near Franklin, that he was levying "token amounts this time." If brought before him again, Myers warned they would pay "the largest amount possible under the law."

[Editorial from the Philadelphia (Pa.) Bulletin, December 19, 1953]

WHERE SMOG IS FREQUENT

Los Angeles has a far greater problem than trying to outdistance Philadelphia in population to become the country's third largest city.

The problem is smog. How serious it is can be realized from the fact that the Los Angeles Daily News some time ago devoted a full page to smog. "It's just not desirable to live here any more," said the News, adding: "While residents move out, new buyers are reluctant." Headlines in other issues struck the same note: "Optometrists Claim Smog Ruining Eyes," "He's Leaving L. A.—Medics Advice—Smog."

What troubles Los Angeles is the same sort of thing that Philadelphia experienced some weeks back. We had it for 2 or 3 days, but the western metropolis has it frequently. Heavy clouds hold down the smoke, automobile fumes, and other air impurities to the extent that nostrils and eyes burn. Add fog from the Pacific, and nearby mountains against which the polluted air can be trapped, and you have the intensity of the Los Angeles problem.

The city is thoroughly stirred since the county medical association reported that doctors see increased death rates from heart disease and tuberculosis as a direct result of smog. The doctors also said smog may cause lung cancer.

Southern California's tourist trade is threatened, industry is beginning to think twice about locating there, and the Los Angeles Chamber of Commerce has labeled smog the city's worst enemy.

Progress has been made here against air pollution, but the recent rare experience with real smog indicates that we've still got a long way to go.

[Editorial from the Philadelphia (Pa.) Evening Bulletin, December 14, 1953]

COST OF CLEAN AIR

At the first public hearing on the proposed air-pollution ordinance there was evidence of nervousness lest Philadelphia acquire a national reputation for being hostile to business.

There is, of course, something else to be feared—that Philadelphia will acquire a reputation of letting its air be fouled just to be kind to business.

The councilmanic committee that has the measure under advisement will be wise in continuing its quest for an ordinance that will give the greatest possible purity of air and at the same time offer the greatest possible attractions to business. These two purposes are probably entirely consistent with each other, though some may see them as contradictory.

It is not easy to believe that any business seeking a good location would deliberately choose a city in which the air is laden with impurities and bad smells which not only threaten health and pleasant living but add to the costs of housekeeping, whether for business or homeowners.

It would not be to Philadelphia's advantage to be known as a city that cannot afford clean air. Surely the costs can be met somehow.

It was made clear at the initial hearing that the draft under discussion was tentative, and that the committee was seeking information for improving it. There may be provisions in the tentative draft that bear with greater harshness than necessary to achieve the objective of clean and agreeable air, but neither business nor the citizens can afford to relinquish pursuit of the objective.

[From the Philadelphia (Pa.) Inquirer, December 15, 1953]

CONDONING AIR POLLUTION

To the EDITOR OF THE INQUIRER:

The chamber of commerce fight to block effective control of air pollution on grounds that it's a "cure that would kill the patient" reveals why there has been no progress against the smoke evil in this city over the last 5 years. No wonder Philadelphia lags so far behind in so many respects.

Scores of industries are making no attempt to control their poisonous wastes, even though it would save them money in the long run, because they know there is no effective way to make them. Meanwhile the lives and health of millions are menaced. Talk about killing patients.

J. K.

PHILADELPHIA, December 12.

BILL ON AIR POLLUTION IS CALLED "BIG STICK" TO CLUB BUSINESS

The chamber of commerce yesterday said passage of the air pollution control bill now before council would hand the administration a "big stick" for clubbing Philadelphia business.

Harris R. Green, vice chairman of the chamber's air pollution control committee, told council's public health committee at a public hearing on the bill that one of its major disappointments was its shift to the punitive approach and away from the educational.

Reading from a prepared statement over the signature of J. Harry LaBrum, chamber president, Green said there was no evidence that the educational approach had failed to the extent that it now needs * * * the punitive or "big stick" approach.

"We continue to fear the 'cure that kills,'" said Green. "We also fear any possibility of Philadelphia acquiring a national reputation for being hostile to business. * * *

DOZEN SPOKESMEN

Green was one of about a dozen spokesmen for the some 100 opponents of the bill attending the hearing.

The new bill hikes the \$100 fine for a violation under the old ordinance to \$300 or 30 days in jail.

Green said it is generally recognized that "pure air over the world's most diversified and intensive industrial area could not be attained merely by waving a magic wand—and certainly not by brandishing a knobbed club."

"Another major concern," said Green, "is the proposal for the first time to include odors as a contaminant to be categorically banned."

Green said that the Franklin Institute, after studying odors for a year and a

half, came up with the finding that there are no "practical means or devices * * * for measuring or identifying odors that can be applied with unfailing universality."

QUOTES DU PONT STUDY

Quoting from a du Pont study of odors, Green said:

"Odor measurement is not possible because, whether simple or complicated apparatus is used, the odor intensity and quality are estimated ultimately by their perception in the human nose."

Morris Duane, chairman of the air pollution control board, told the council committee that householders have as much right to protection from odors as they have from smoke.

"Some of the odors around the city, especially from fat-rendering plants, you have to smell to believe," said Duane.

Edward E. Esterline, executive secretary of the Greater Philadelphia Fuel Conference, said very little of present air pollution comes from home-heating equipment.

Councilman Constance H. Dallas adjourned the hearing until next Tuesday at 2:15 p. m.

ASKS LICENSE EXEMPTION ON HARD COAL HEATERS

The Pennsylvania Anthracite Information Bureau today urged that the city's pending air-pollution ordinance, which calls for the licensing of heater installations, be amended to exempt homes burning anthracite.

The bureau said that hard coal is a smokeless fuel and does not add to air contamination.

The recommendation was made in a letter to Councilwoman Constance A. Dallas, chairman of city council's health and welfare committee.

[Editorial from the Philadelphia (Pa.) Inquirer, November 21, 1953]

FINDING OUT ABOUT SMOG

The acrid smog of the last few days has given Philadelphians a hint of the conditions that have already become a serious problem in other cities and one from which the citizens of this area, it is apparent, are by no means immune.

In a city like Los Angeles, where nearby mountains prevent industrial smoke and other fumes from blowing away with the wind, smog is a chronic threat to the lives and health of the people. In London and other British cities where there are no mountains but the smoke nuisance has been permitted to grow unhindered over the centuries, smog is an out-and-out killer, with some 12,000 deaths attributed to it during one visitation last year in December.

For many years Philadelphians have seemed to feel justified in taking a tolerant if somewhat disapproving view of atmospheric pollution. Even during the smog hundreds of smokestacks could be seen throughout the urban area belching their usual filth, although we have laws and enforcement agencies intended to reduce such practices.

It is time we take a practical view of this public-health problem, before we find ourselves confronted with tragedy instead of the smarting eyes and irritated throats suffered during the last few days.

[From the Philadelphia (Pa.) Evening Bulletin, August 5, 1953]

FACTORY ODORS BLANKET SOUTH PHILADELPHIA AND CENTER CITY

Unpleasant odors, wafted on winds from the southeast, blanketed south Philadelphia and the center city last night, setting off a flood of telephone calls to the electrical bureau and police stations.

Investigators of the air pollution control division of the department of health said the odors emanated from several riverfront industrial plants.

FUMES NOT DANGEROUS

Newell K. Chamberlain, executive director of the division, said the odors were "more obnoxious than noxious." And since the fumes were not injurious to health, the department of health could not order the plants shut down, he added.

"Under the existing ordinance, we're practically powerless unless the fumes are dangerous," he said.

He said his investigators had "practically nailed down" the smells to one plant, which he declined to name until the investigation was completed.

However, Jesse Lieberman, a chemical engineer, said several industrial firms were involved. The smells, he said, were a mixture, the principal ingredients being fermenting mash and fertilizer.

UNPLEASANT ODORS DRIFT OVER CITY

Unpleasant odors drifted through the south and central parts of the city last night, causing complaints to police and the electrical bureau.

Newell K. Chamberlin, executive director of the air pollution control board, said investigators from the department of health were out until 2 a. m. tracing the smell.

Chamberlin said he was pretty sure the odor had been traced to one plant, but he declined to name it until his investigation was complete. He said the smells were a mixture of fermenting mash and fertilizer.

[Editorial]

AIR POLLUTION LOOPHOLE

It is not only in enforcement of the air-pollution ordinance that loopholes can be found. There are some in the ordinance itself.

That was apparent Monday night. A summertime aroma far from that of new-mown hay pervaded South and Central Philadelphia. It brought a flood of inquiries and descriptions that it was a mixture of fermented mash and fertilizer.

However, the city health department found that the odors were not harmful to health, unpleasant as they were. Consequently it was powerless. Fumes may make life virtually unbearable, but unless they threaten health nothing can be done about them.

Meantime there are some weak spots in enforcement, too. More than one industrial plant spews out its black smoke daily and nobody seems to care.

It's no wonder that on many a morning a pall hangs over the city, plainly visible to suburban commuters who find the sun obscured before they're far into the city.

Air-pollution control obviously needs a better ordinance as well as better enforcement if it is to be effective.

[Editorial from Philadelphia (Pa.) Bulletin, January 2, 1953]

UNABATED NUISANCES

Imposition of a fine on a South Philadelphia firm which had failed to end the discharge of fumes after repeated warnings marks one of the first prosecutions under the city's air-pollution ordinance. It is likewise notice to other violators that warnings can't go unheeded.

Philadelphia has ~~done some~~ progress in cleaning its air of smoke and fumes, but ~~7~~ parts of the city indicate that the campaign

~~ing~~ hours of the morning when factories in tracing the source of much of Chimney after chimney belches a testing.

[From the Philadelphia (Pa.) Bulletin, January 28, 1953]

SMOKE NUISANCES GET ATTENTION

Following publication of your editorial Unabated Nuisances (December 31), we sent three inspectors out from daylight to 9 a. m. on January 7, 8, and 9. They covered the entire city on their trips.

The results were: 6 violations on January 7; 5 violations on January 8; 4 violations on January 9.

Four of these violations were new ones. Eight were in plants which are really trying to correct conditions.

We think your suggestion was worthwhile, and we shall run such checks again. We would appreciate a direct message any time you note a smoke nuisance.

N. K. CHAMBERLIN,

Executive Director, Division of Air Pollution Control.

The CHAIRMAN. Our next witness is the Honorable Lucio Russo, member of the New York State Assembly. It is nice to have you, sir. Do you have a prepared statement?

Mr. Russo. No; I don't, Senator. I would like to speak off the cuff, and it might take 5 minutes.

The CHAIRMAN. That is sometimes the best. You may proceed.

STATEMENT OF LUCIO RUSSO, MEMBER, NEW YORK STATE ASSEMBLY

Mr. Russo. First of all, my name is Lucio Russo. I am a member of the New York State Assembly, and I represent the second assembly district of Richmond County, which is known as Staten Island.

The CHAIRMAN. Will you yield just one moment?

Mr. Russo. Yes, sir.

The CHAIRMAN. This bill I referred to is now law, is it not?

Mr. Russo. That is right. Governor Dewey signed that bill on March 30.

The CHAIRMAN. Without objection, I would like to make this act a part of the record. You say it was just recently signed?

Mr. Russo. That is right, on March 30.

(The act referred to follows:)

[State of New York, No. 47, Int. 47, in Assembly, January 6, 1954]

AN ACT Authorizing and empowering the interstate sanitation commission to make a study of smoke and air pollution; and making an appropriation therefor and repealing chapter four hundred fifty-four of the laws of nineteen hundred fifty-two, entitled "An act authorizing and empowering the interstate sanitation commission to make a study of smoke and air pollution; and making an appropriation therefor"

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

SECTION 1. The interstate sanitation commission is hereby authorized and empowered to make a comprehensive study of smoke and air pollution in the areas of New York and New Jersey specified in section three of chapter three of the laws of nineteen hundred thirty-six and the problems caused thereby. The study shall include a survey of the sources and extent of such pollution, property damage caused thereby, its effect upon public health and comfort, and relevant meteorological, climatological, and topographical factors.

EXPLANATION.—Matter in *italics* is new; matter in brackets [] is old law to be omitted.

§ 2. For the accomplishment of the study, the commission shall have power to appoint and remove its own officers and staff, prescribe the duties of such employees and fix their compensation within the appropriations available therefor.

§ 3. The commission shall make a report to the governor and the legislature on or before February first, nineteen hundred fifty-five. The report shall set

forth the findings of the commission, its recommendations for a smoke and air pollution control program and a plan for the administration of such a program by an appropriate agency. It shall also include a study and evaluation of existing laws in the states of New York, New Jersey, Connecticut and in other jurisdictions relating to smoke and air pollution and drafts of proposed legislation to carry out the recommendations of the commission.

§ 4. The sum of thirty thousand dollars (\$30,000), or so much thereof as may be necessary, is hereby appropriated to the interstate sanitation commission from any moneys in the state treasury in the general fund to the credit of the state purposes fund, not otherwise appropriated, for the purposes set forth in this act, including personal service and other necessary expenses, payable on vouchers certified or approved by the chairman of the interstate sanitation commission with the approval of the director of the budget in the manner prescribed by law.

§ 5. This act shall take effect when the state of New Jersey shall make available a similar appropriation for the study and survey authorized by this act.

§ 6. Chapter four hundred fifty-four of the laws of nineteen hundred fifty-two, entitled "An act authorizing and empowering the interstate sanitation commission to make a study of smoke and air pollution; and making an appropriation therefor," is hereby repealed.

The CHAIRMAN. Proceed, Mr. Russo.

Mr. RUSSO. I am also here representing the borough president's Committee on Pollution and Abatement, of Staten Island. Of course, this is a problem that seriously affects Staten Island. We are right across the Kill van Kull, and across the Kill van Kull are many factories in New Jersey, in Elizabeth, N. J., and the Amboys, and so on.

I thought that if we could enter into a compact with the State of New Jersey, we could at least cure, or attempt to cure some of the evils. I introduced this bill in Albany. We had no difficulty in Albany. It came out of the committee and passed without any opposition, and the Governor was for it, and the Governor signed it. Governor Dewey spoke to Governor Meyner, and Governor Meyner felt—

The CHAIRMAN. That is Governor Meyner of the State of New Jersey?

Mr. RUSSO. Governor Meyner of the State of New Jersey. They had a long telephone conversation on this subject, and it is my understanding that Governor Meyner is also for the bill.

Assemblywoman Florence P. Dwyer, of Union County, introduced a companion bill similar to mine, in the assembly in the State of New Jersey, and that bill is now before the joint appropriations committee. It appears that it is having a little difficulty getting out of committee. Of course, my bill will not take effect until New Jersey matches a similar amount of \$30,000.

Now, there are some people in New Jersey who feel that this problem should be approached on an intrastate level. In fact, Senator Jones there has a bill on that. But I can't see that approach because certainly air pollution and smoke doesn't stop at a particular boundary and, naturally, if New Jersey made their own study and found that some evils come, say, from Staten Island or New York, or Connecticut, certainly they can't legislate for the people of the State of New York, and we couldn't possibly either.

Now, I don't know just what is going to happen to that bill in New Jersey. I am a reluctant to appropriate money, to find out who are the offenders. And some people may merely find that out.

The

the Governor's counsel,
Well, there is nothing

we could do about Camden, as far as New York is concerned. If we formed a compact with New Jersey and made a study, you could also make a compact with the State of Pennsylvania."

This could go on and on, of course, and every State would have to make a compact with another State. And, since it is an interstate problem, a problem that apparently affects the health of people and affects housing—I know in my borough when you have fog and smoke, and have the so-called smog, you don't know whether you are in the city of London or in Staten Island. There is no question that it is injurious to health, and it is also injurious to plants and vegetation on Staten Island.

I sincerely feel that this is a problem where the Federal Government should be interested. It is an interstate problem, and it affects all of the people of the United States, and I feel that this amendment to your housing bill should pass.

The CHAIRMAN. Did you have any testimony in your assembly in Albany on this subject?

Mr. RUSSO. Nothing whatsoever, Senator.

The CHAIRMAN. Nothing that would be helpful to us?

Mr. RUSSO. You see, we, 2 years ago, in the Interstate Cooperation Committee, which is composed of members of the legislatures of both States, an agreement was made to pass this legislation, but the State of New Jersey never introduced a bill; this year they did. But, as I say, it is a problem of whether or not it would pass there. There are a lot of factories there, and naturally they are opposed to the bill for fear that we may legislate on controls for these factories. I could very well understand their interests. Yet, I think the interests of the public, the general welfare, is paramount to any private interests.

The CHAIRMAN. If the Federal Government became interested in this, by legislation, and agreed that if the city or State or a section did certain things, that anyone that eliminated their smoke would be entitled to 5-year amortization for tax purposes, and could have, if they cared to, a loan to put in the necessary equipment, and the FHA would guarantee their mortgages, and they would build a new home and the Federal Government of course would interest itself by research and show them how, there is no question then but what it would make it much easier for the city of New York and Staten Island, and New Jersey to proceed under the popular methods of handling this thing, would it not?

Mr. RUSSO. Certainly, Senator.

The CHAIRMAN. It will be awfully hard for you to do it without the help of the Federal Government.

Mr. RUSSO. I don't see how it could be done. Even assuming we did it in New York and New Jersey, what about Pennsylvania, and so on and so forth?

The CHAIRMAN. What we are recommending at the moment, of course, has nothing to do with States rights. In fact, it will strengthen States rights, rather than weaken them, because it certainly is interstate. It has to be interstate and can't be anything else, because smoke is something that comes up and moves.

Mr. RUSSO. It doesn't stop at a State line.

The CHAIRMAN. That is right. We have, I suspect, several hundred instances in the United States where cities are on State lines.

Large cities I can think of at the moment, like Philadelphia and Camden, and New York City and cities in New Jersey, and the Kansas Cities, Minneapolis and St. Paul, Chicago and Hammond and Gary—and you could go on and on, and you find cities that are sitting right on State lines, and large cities, too.

Mr. Russo. You see, Senator, everyone you speak to is for this particular bill, in New Jersey, but somehow or other it just doesn't get out of committee.

The CHAIRMAN. Maybe we ought to speak to Senators Hendrickson and Smith.

Mr. Russo. Mayor Nicholas LeCorte is going to testify tomorrow and he is interested in the bill. Everyone seems to be interested in it, but I am afraid that it is a very difficult approach to the problem, even assuming, as I say, that we adopted this compact. But, after all, there are other parts of the country involved, and I think if we approached this on a national scale, it would be very, very helpful.

The CHAIRMAN. Did you check with Governor Dewey to see whether or not he is in favor of this Federal legislation we are discussing?

Mr. Russo. Let me say this: Governor Dewey is in favor of the abatement of air pollution, and he is in favor of the control and study of air pollution. Now I would assume from that, being interested in the subject, having made several phone calls to Governor Dewey, that he would be interested in your amendment.

The CHAIRMAN. And he did sign your bill?

Mr. Russo. He definitely signed it, on March 30. It is law in New York.

The CHAIRMAN. Can you think of any way in which the Federal Government might help, beyond what is a part of the bill, this proposed bill?

Mr. Russo. Which bill are you speaking of, Senator?

The CHAIRMAN. The amendment I introduced, the Capehart amendment.

Mr. Russo. How the Federal Government can what? I didn't understand your question, Senator.

The CHAIRMAN. My amendment to S. 2938. Is there any way in which you feel the Federal Government could be helpful, beyond what is proposed in this legislation?

Mr. Russo. I see what you mean, Senator. I read the bill carefully. I think it is a well drafted and a very good measure. It covers the subject very well.

The CHAIRMAN. Is your assembly in session at the moment?

Mr. Russo. No, sir; we adjourned on March 20.

You see, that brings up another difficult problem. Let's assume, now, the State of New Jersey wanted to amend that bill and make a certain change. You can't do that, because we are not in session. So, it is difficult to make these compacts.

The CHAIRMAN. History and governments move slowly, in fact sometimes too slowly, and at other times, too fast.

Thank you very much. We appreciate your testimony and it is nice of you.

Mr. Russo.

The CHAIRMAN.
Association.

American Municipal

**STATEMENT OF RANDY HAMILTON, WASHINGTON DIRECTOR,
AMERICAN MUNICIPAL ASSOCIATION**

Mr. HAMILTON. Thank you, Senator.

I am the Washington director of the American Municipal Association. I had not intended to appear, but we are running well so I thought I would say verbally what we have already placed in the record.

On behalf of the 12,000 cities in 44 States, which are members of our association, sir, I would like to urge members of your committee to adopt the provisions of S. 2938—

The CHAIRMAN. Will you say that again, please?

Mr. HAMILTON. On behalf of the 12,000 cities in 44 States, which comprise our membership, I would urge the adoption of the Capehart amendment.

The CHAIRMAN. You are the executive secretary?

Mr. HAMILTON. The Washington director.

The CHAIRMAN. For the American Municipal Association. And you have 12,000 members?

Mr. HAMILTON. That is correct.

The CHAIRMAN. And the 12,000 cities are urging the adoption of this legislation?

Mr. HAMILTON. Yes, sir. I may say, sir, we adopted a resolution at our Los Angeles meeting 2 years ago, which was the second largest meeting of municipal officials ever held in this country, and the principles embodied in your bill were embodied in our resolution.

The CHAIRMAN. Do you have a copy of that resolution?

Mr. HAMILTON. It has been made a part of the record, Senator, by letter.

The CHAIRMAN. And this resolution endorses the legislation?

Mr. HAMILTON. Yes, sir. And it was adopted unanimously.

The CHAIRMAN. That is by the 12,000 cities?

Mr. HAMILTON. That is right.

The CHAIRMAN. How many cities are not members of your association?

Mr. HAMILTON. There are about 16,000. We represent both large and small cities. Our membership runs from the largest cities in the country, down to Bellview, N. C., with 1,300 inhabitants.

The CHAIRMAN. New York City?

Mr. HAMILTON. It was a member until the first of last year.

The CHAIRMAN. Chicago?

Mr. HAMILTON. Yes.

The CHAIRMAN. Indianapolis?

Mr. HAMILTON. Yes. Chicago is, by virtue of its membership in the Illinois Municipal League.

Direct membership includes Philadelphia, St. Louis, Los Angeles.

The CHAIRMAN. You have been authorized by your 12,000 members to approve this legislation?

Mr. HAMILTON. Yes, sir.

The CHAIRMAN. Thank you very much, unless you have something further to say.

Mr. HAMILTON. I just want to make one point, in addition to that made this morning: That is that the subject is too definitely inter-

state in character, that we feel that its adoption is Federal-State-local partnership, in the best sense of the word.

We are, of course, always jealous of State's rights, to use that expression, and we do not feel that this bill is in any way an impairment or infringement of State's rights, and we think it is an extension of the partnership in the most desirable fashion. And we think that point should be stressed.

The CHAIRMAN. Thank you very, very much. We appreciate your testimony.

Now, Congressman Hiestand would like to make a statement here, and we are delighted to have him do so.

STATEMENT OF EDGAR W. Hiestand, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative Hiestand. Thank you, Mr. Chairman.

My name is Edgar W. Hiestand, Congressman from the 21st District of California, roughly comprising the northern two-thirds of the county of Los Angeles.

The smog problem there is very, very well known. It is particularly acute due to climatic conditions, without wind. I think that is important that we have consideration of an amendment of this type. I am a member of the Banking and Currency Committee which has just passed the bill, and I am an author of one of the amendments that was added to it, and I am very much interested in this amendment because it can relieve a whole lot of communities.

But I am interested in it for several other reasons. The enforcement of anti-air pollution measures presents great difficulties to municipalities and communities, because it is unavoidably so expensive to the people who are guilty of polluting the air, and the authorities are reluctant to force them either into bankruptcy or to severely impair their financial standing.

Now, if we can arrange for the financing, in accordance with this measure, and guarantee the financing, and furthermore, permit rapid amortization, it certainly can go a long way toward the enforcement of the measure of the local ordinances.

It will conceivably, also, protect present investments and guaranties of the FHA against depreciation. We could face considerable loss in that regard. It should cost the taxpayers nothing. In the long run, rapid amortization equalizes itself, and costs the taxpayers nothing. If there are no losses from guaranties under FHA—and the probabilities are there will be none—it will cost the taxpayers nothing.

Everybody seems to be in favor of the amendment, Senator, and I join with those who espouse its policies.

The CHAIRMAN. Thank you, Mr. Hiestand. We are glad to have you as a witness, and we are going to have more days of hearings, and we hope you attend.

We will recess until tomorrow, at which time we will have as witnesses the Bureau of State Services, Public Health, Education, and Welfare; Dr. Robert A. Taft, Mayor of the

City of Los Angeles; Hon. Warren Billings, councilman from South Pasadena, Calif. He will represent the Los Angeles Division of the League of California Cities. Then, John P. Robin, director of the Pittsburgh Redevelopment Authority, Pittsburgh, Pa. He will represent the United States Conference of Mayors. Then, Hon. Joseph S. Clark, Jr., mayor of the City of Philadelphia; Hon. Nicholas S. LeCorte, mayor of Elizabeth, N. J.; and Harold W. Kennedy, county counsel, Los Angeles County, Los Angeles, Calif.

So, we will stand in recess until 10 o'clock tomorrow, at which time we will hear the witnesses that I just named.

(Whereupon, at 11:30 a. m., the committee recessed, to reconvene at 10 a. m., Wednesday, April 14, 1954.)

HOUSING ACT OF 1954

Air Pollution Prevention Amendment

WEDNESDAY, APRIL 14, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, at 11:20 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart and Goldwater.

Also present: Senator Thomas H. Kuchel of California.

The CHAIRMAN. The committee will please come to order.

We will resume the hearings which we recessed yesterday morning on the smoke elimination and air pollution amendment.

Our first witness—and let me say coauthor of the amendment with myself—is Senator Kuchel from California. Senator, we are delighted to have you. Why don't you proceed in any way you care to?

STATEMENT OF THOMAS H. KUCHEL, A UNITED STATES SENATOR FROM THE STATE OF CALIFORNIA

Senator KUCHEL. Mr. Chairman and members of the committee, in coming here today, I desire to express not only my own appreciation, but that of many groups and agencies in California for the opportunity to urge legislation that will give an impetus to and supplement the varied efforts of local governments, civic organizations, and industries to overcome the vexatious problem of air pollution.

Because this smog problem is complicated, I have been very happy to join with the chairman of this committee, Senator Capehart of Indiana, in sponsoring the proposals now before the committee.

I should like to make a general statement on the seriousness of this problem which is becoming more and more acute in many metropolitan areas throughout the country. With me today are officials from southern California and others who as witnesses will go into detail about the extent of this problem, the activities and measures in progress to reduce if not eliminate the costly and dangerous hazard to the health and welfare of our people and to both the growth and the economic development of our cities, and the mounting damage to agriculture, properties, and even day-to-day affairs.

As most of you undoubtedly are aware, air pollution—generally referred to as smog—has become a matter of great concern in the Los Angeles metropolitan area and is of growing concern to the areas of San Diego and San Francisco. A variety of bold steps have been

will not solve the problem. Adoption and enforcement of regulations and ordinances are only a partial answer to the question of how we are going to clean up our atmosphere. Closing of industries would upset our economy drastically, and dispersal would bring at best only temporary relief and be exceedingly costly.

The damages from smog are so great they cannot be computed. No one knows the toll in the way of infection of humans. Agriculture has suffered greatly—the loss to crops in the Los Angeles area during one short period of serious smog last year was figured at \$500,000—and properties of all kinds, homes and automobiles and clothing, are affected.

PURPOSE OF AMENDMENT

All three phases of the proposed legislation will be of great value in furthering the attack against air pollution.

When we require industries to cut the output of smoke and fumes, we force them to make substantial outlays for equipment and construction changes. Floating roofs on oil storage tanks, precipitators for exhaust stacks, and intricate apparatus are very expensive. One feature of the legislation would permit accelerated depreciation of these capital expenditures. And I know many small industries, of which we have thousands in my State, cannot put out the money required to comply with antismog regulations unless they get help in the shape of tax relief.

The granting and insuring of loans for structural changes and new devices that will reduce the seriousness of air contamination is essential to encourage and make possible cooperation by homeowners and builders. In many communities, residences with furnaces that burn coal or oil contribute fumes and particles that could be reduced, if not eliminated, so the provisions of this legislation dealing with loans and insurance would provide practical assistance to property owners and further the efforts of local agencies of government.

The section of the legislation authorizing research and investigation is desirable to bring together the results of work previously and currently being done by Federal authorities and others and to make possible new programs that hold hope of showing the way for more effective results in reducing and wiping out air pollution. As evidence that the Federal Government is not being asked to do the entire job, I should like to mention that in Los Angeles there is just getting underway an ambitious and promising areometric survey by the Southern California Air Pollution Foundation recently set up with the backing of governmental bodies, industry, and civic groups.

The proposed legislation which I earnestly urge this committee to include in the new housing bill has been endorsed by several public agencies in California which feel it will promote efforts to deal with the smog problem. I should like to call your attention to the fact that the Los Angeles County Board of Supervisors only a week ago unanimously urged Congress to enact such a measure. Earlier the tax features allowing fast amortization of antismog expenditures was advocated by the Legislature of the State of California and the League of California Cities.

Before you hear the California witnesses who have come here to discuss these proposals, I want to tell the committee that I am deeply

(The resolution referred to follows:)

CHAPTER —

The:

**STATEMENT OF NORRIS POULSON, MAYOR, CITY OF LOS ANGELES,
LOS ANGELES, CALIF.**

MAYOR POULSON. Mr. Chairman and members of the committee, my experience in Congress has taught me that you want to be concise in what you have to say. Therefore, I am going to ask that while submitting my statement for the record, I am likewise submitting a statement by Mr. Charles Bennett, the director of planning of the city of Los Angeles, in which he has very ably brought out the matters under consideration.

THE CHAIRMAN. Without objection, Mr. Bennett's statement will be printed in the record.

(The statement referred to follows:)

**STATEMENT OF CHARLES B. BENNETT, DIRECTOR OF PLANNING, CITY OF LOS ANGELES,
ON AIR POLLUTION AND HOUSING**

Of all the many conditions which tend to create slums and blighted neighborhoods, air pollution is one of the foremost. Air pollution includes such factors as smoke, dust, odors, gases, and related airborne irritants. The term "smog" is generally applied to this condition, especially in those areas such as Los Angeles where these irritants combine with fog to form the dirty, grayish-brown mixture becoming all too familiar during certain months of the year.

Air pollution is ordinarily most acute and noticeable in the areas immediately surrounding large industrial establishments; particularly those which do considerable burning in their operations and expel both smoke and gases. Housing in or adjacent to these districts deteriorates rapidly, and soon drops into the blighted or slum category. People who are able to move out; vacancies occur; the property return diminishes; the owners fail to maintain the structures, and the housing gets worse and worse.

Studies of the Los Angeles City Planning Commission reveal that the worst of the blighted housing in the city closely parallels the location of the principal industrial districts. These are the districts where, as previously mentioned, there is the greatest predominance of air pollution and "smog." The elimination of this nuisance would not in itself eliminate the slums, but it would certainly improve the existing situation by removing one of the most annoying and unhealthy conditions. Many other steps are presently being taken to rehabilitate the blighted neighborhoods of Los Angeles. Our first community redevelopment project presently under consideration involves the removal of blighted housing from an industrial district. The encouragement of the installation of smog abatement equipment would be another significant move in the right direction.

Of even greater concern than the physical housing is the health of the people. Air pollution is a health menace. It adversely affects the environment of a neighborhood, making it less and less desirable in which to live. At a national air pollution symposium held in Pasadena in 1949, Dr. Robert A. Kehoe, M. D., director of the Kettering Laboratory of Applied Physiology at the University of Cincinnati, stated:

"The experience of urban communities * * * has demonstrated that the pollution of the atmosphere with airborne industrial wastes * * * is capable of causing respiratory irritation and distress on the part of large proportion of the residents and * * * fatalities among the older segment of the population with special reference to those afflicted with cardiorespiratory impairment."

In 1951, the county board of supervisors made a survey among the members of the Los Angeles County Medical Association. Of the 2,803 replies received, 2,561, or over 90 percent, said that smog definitely affects health in some fashion. The majority agreed that the eyes, nose, throat, and lungs were most generally affected, but many included such other bodily functions as nervous system, heart, liver, teeth, and many others.

Health department records reveal that the incidence of tuberculosis is greater in the blighted than in the good areas of the city. Air pollution in the blighted districts undoubtedly is a contributing factor.

The foregoing data tend to substantiate the fact that air pollution is generally most severe within and adjacent to heavy industrial districts, and that air pollu-

tion adversely affects nearby housing and its occupants. It has been a contributant to the spread of blighted living conditions.

While smog, as shown on the accompanying map, also is thickest in the downtown industrial district, because of atmospheric conditions the smog attacks many other of the better residential areas of the city. Should this air pollution be permitted to spread unchallenged, these other residential neighborhoods will likewise deteriorate and the residents will be compelled to search for more healthful surroundings. It is essential that vigorous steps be taken immediately to smother this growing air-pollution danger. One effective means of alleviating the problem is through the installation of smog-abatement equipment.

The CHAIRMAN. Go ahead, Mayor Poulson.

Mayor POULSON. It has been definitely established that this is not a local problem, but it is general throughout the country. Likewise, it is one of the contributing factors to the creation of slums and certainly the deterioration of all housing that comes within the area.

I have here before you a map taken of the Los Angeles County area in which it shows the various sections affected by the smog. Smog is a localized name. It means the same in any other area. In our particular section, along the coastline in blue, you will notice where the fog comes in from the ocean. Then, in red, the red spots are the source of the industrial area where the main source of the air pollution originates. With the wind currents coming from the ocean you will find that it drives them not in the particular section toward the beach away from the source of the industrial area and up into the portion of the city. In the yellow lines there, you will see that portion of Los Angeles which is like a jigsaw puzzle because we surround Beverly Hills and 3 or 4 other cities and we have county areas within the city. Nevertheless, you will see just a portion. But, the intensity of this smog over in some of the finer residential areas of the county, including Pasadena, and Monrovia, Sierra Madre, and Altadena, and San Marino, which is considered where the elite live. That happens to be right in the very center.

Now, the fact that this smog originates and with the inclusion of the fog as it comes in and with the wind currents travels over to an area entirely foreign to the source where it originates, you will find that the people who are affected have no connection at all with the source of this. So, therefore, any contribution or any effort made on the part of the industries to eliminate that or to curtail it—and mind you it intensifies as it goes farther away from the factories—is a public service. When these industries, which include many kinds, including our oil industry, and the various types of factories we have, and automobiles. When they install any type of contrivance to eliminate or curtail the air pollution, that particular addition to their factory is a nonproducing, as far as profit is concerned, contribution. It runs into millions and millions of dollars. So, my contention is that while I am a great believer, and my record in Congress will substantiate it, and I still believe in local autonomy and local responsibility, and it is the responsibility to enforce the law and to carry it out, I suggest that where the Federal Government enters into the picture is that it is penalizing those industries which are making these installations costing millions of dollars. It is penalizing them by compelling them to set this up as a capital investment and to depreciate it over a long term of years, rather than setting it up as they would an expense, or at least allowing them a quick writeoff, which is not a contribution. We are not asking for any handout. We are simply

asking that the Federal Government stop penalizing those industries trying to give a public service.

Now, I would like to show you a most interesting picture. In the city of Los Angeles, as you will see by these lines through the San Fernando Valley which is white and which is not affected, last year in order to get our fair share of the gasoline tax funds we had a Federal census taken of the city of Los Angeles. The city of Los Angeles paid for it. It was conducted by the Federal Census Bureau. During that period we gained a net of 134,000 people in the 3 years. But, here is the story which is astounding. In this particular area right through the center of Los Angeles where we have the smog, there were 71,000 people less than in 1950. Out in this area that is affected we have an increase of 205,000 people. Then, if we take the figures in here according to the county planning agency, we find that we have increased approximately 600,000 and it has always gone down into the area of Santa Ana, where they are not affected by smog. That should be as conclusive a picture as there is that it positively does affect housing.

Of course, we all know that it is a penalty for any company to have to spend money on nonproductive equipment. I am not a crepe hanger. I have criticized the various groups in my county who attempted to make a political football out of the fact that we are leveling off, but nevertheless, we don't want to penalize it. We don't want to add any additional burdens to these businesses by compelling them to charge that off at such a low rate.

The CHAIRMAN. The proposed legislation calls for the Federal Government to do three things. One is to permit quick amortization. The second is that the FHA would guarantee any mortgages to buy the necessary equipment for eliminating the smog. The third is that the Federal Government would set up a research department, but only on the basis that cities and counties and States cooperate 100 percent. The Federal Government can do very little unless the cities cooperate.

Is it your best judgment, as the mayor of the third largest city of the United States, that your city will cooperate? Do you think other cities will?

Mayor POULSON. Positively. In fact, as we explain later, when Mr. Hal Kennedy, counsel for the air pollution control district here testifies, he will tell you how many millions have been spent there already. We know that it is a local responsibility. I believe that it is a local responsibility. I believe in local autonomy. But, there are certain cases in which you can help.

The CHAIRMAN. The Federal Government has to get into it because it is interstate. While this is not true in Los Angeles, it is true in many of our larger cities that they are right on State lines. For example, it wouldn't do New York City much good to have the best ordinance in the world and enforce their smog regulations, if across in New Jersey they did nothing about it. Or, let us consider Washington, D. C. You have Arlington, Va., and you have nearby Maryland. So, it is an interstate commerce problem and the Federal Government, in my opinion, ought to assist.

Mayor POULSON. If the Federal Government can finance other projects such as housing and the like, certainly this ties in with the deterioration of housing and the helping of the financing of those

industries which are unable to arrange for the particular cash at that time for the installation.

The CHAIRMAN. In other words, you think it is a good thing at the moment because you think it will create jobs and we need some jobs right now?

Mayor POULSON. We certainly don't want to hurt business. We are asking the industries to spend millions of dollars in equipment which will not produce one single bit of revenue. If the Government takes off the penalty of the long writeoff that is not a handout.

The CHAIRMAN. You think we are justified in feeling that a local government must take the lead and cooperate?

Mayor POULSON. Under all circumstances, I would recommend that the city and the county and the local agencies should take the lead and all that Congress should do is the proper function of government in the way of assisting wherever you can.

The CHAIRMAN. And, leave the procedures entirely up to the cities and the States and the counties?

Mayor POULSON. That's right.

The CHAIRMAN. Have you any sections out there in Los Angeles as a result of this smog situation, that is, new projects, that will become blighted areas or slum areas in a comparatively short time if you do not cure that situation?

Mayor POULSON. You probably know the history of public housing. It has been publicized throughout the Nation. We have stopped public housing since I have become mayor. But, in the particular areas in which we have public housing they are right here in the center of the smog area. The millions of dollars which the local communities, and the Federal Government, has been investing will be lost simply because of this condition right here. It is best evidenced by the fact that in the finer areas on this map where the nicer homes are along the hillside, the prices have dropped thousands of dollars already.

The CHAIRMAN. What good is it going to do to build a new subdivision and then have some factories pour a lot of smoke on it and within 6 months' time you can't tell what color the paint was originally and you have got, maybe within 2 or 3 years, a blighted area.

Mayor POULSON. It is the same as taking medicine for something instead of trying to find the cause.

The CHAIRMAN. I was amazed at the testimony we had yesterday from the gentleman from Philadelphia on the situations they find up there in certain sections. I was amazed that they have that situation in Philadelphia. I knew you had those situations out where you had steel mills and where you used some soft coal, but I didn't know you had it where the coal used was primarily anthracite.

Mayor POULSON. I think you will find this is prevalent throughout the country. The more we industrialize and centralize, the more we are going to have it.

The CHAIRMAN. Today science has produced industrial equipment that eliminates smoke, even from the most smoky type of coal. It could be done. There is no question about it. You could eliminate all of the smoke in the United States, or at least 95 percent of it if you wanted to spend the money to do it.

Mayor POULSON. I would like to say for the record right now that I invite in here a very prominent citizen from our area. This group

of public spirited citizens have organized a foundation in which they have placed about \$500,000 already to go out and make a study and a survey. I think I could say this much in their behalf, that they would be very anxious to have a centralized agency here in the Federal Government which they could work through in their future study of this. That is an additional reason why the penalties should be taken off from the standpoint of depreciation on these companies which make these installations. It is not a proven fact yet that the particular installations will absolutely remove the cause. There is still a great chance in there. Certainly with that chance they should be given a fair treatment.

The CHAIRMAN. We are going to do everything we can to get this legislation through and if we can't get it through this year, we are going to try again next.

Mayor POULSON. Thank you.

The CHAIRMAN. I am personally going to try to get this sort of legislation through as long as I am in the United States Congress. To me it is one of the most important things that the Government can do, getting rid of smoke and smog and dirt.

Mayor POULSON. I would say that in Los Angeles County this is our No. 1 problem, and we are not ashamed to admit it, because we know that the same condition prevails in other places.

The CHAIRMAN. There are a lot of cities that have it as the No. 1 problem if they would just admit it.

Senator KUCHEL. Mr. Chairman, I would like to make a comment with respect to the revenue changes which your amendment and my amendment propose to make. I think as an incentive piece of legislation it would constitute an incentive to business to assist in the solution of the air-pollution problem. I would like to introduce to the chairman and the members of the committee the county counsel of the county of Los Angeles, Mr. Hal Kennedy, who will speak not alone for Los Angeles County, but for the County Supervisors Association of the State of California, since this is, as Mr. Kennedy I am sure will suggest, a problem that is not unique to Los Angeles. We have the same problem in San Francisco, in Alameda County, in San Diego County, and in San Bernardino County and Riverside in the interior.

The CHAIRMAN. Where is Mr. Billings; is he out there? Why don't you come forward, too, Mr. Billings, and sit up there where we can see you.

STATEMENT OF HAROLD W. KENNEDY, COUNTY COUNSEL, COUNTY OF LOS ANGELES, CALIF.

Mr. KENNEDY. Mr. Chairman, my name is Harold W. Kennedy. I am speaking as the county counsel of the County of Los Angeles, and as the attorney for the Los Angeles County Air Pollution Control District. I would also like to speak as the executive vice president of the National Association of County and Prosecuting Attorneys, a national organization composed of prosecuting and county attorneys throughout the Nation, which organization is very much in favor of air-pollution abatement and control.

The CHAIRMAN. You may proceed.

Mr. KENNEDY. In 1946, at the request of the Board of Los Angeles County and Assemblyman A. I. Stewart, of Pasadena, I had the privilege of drafting the California Air Pollution Control Act of 1947. This act provides an entire procedure and legal machinery for abating air pollution. As you have already pointed out, Senator Capehart, smog does not recognize geographical boundary lines. Therefore, all the 46 cities in Los Angeles County are under the police power and jurisdiction of the air-pollution-control district. The League of Cities yielded their jurisdiction to the board of supervisors, which is the policymaking agency and chargeable with enforcement.

I say without reservation that air pollution is the curse of the modern community. In my opinion, sound governmental policy dictates abating it in the manner that you have indicated in the bill which you and Senator Kuchel are proposing.

I have here a certified copy of a resolution placing the Board of Supervisors of the County of Los Angeles, which is the governing body of Los Angeles County Air Pollution Control District, in firm support of S. 2938 with reference to the amendments relating to air-pollution control.

The CHAIRMAN. It will be made a part of the record.
(The information referred to follows:)

COUNTY OF LOS ANGELES,
BOARD OF SUPERVISORS,
Los Angeles, April 6, 1954.

Resolution introduced by Supervisor Roger W. Jessup

The board met in regular session. Present: Supervisors John Anson Ford, chairman, presiding; Herbert C. Legg, Kenneth Hahn, Burton W. Chace, Roger W. Jessup, and Harold J. Ostley, clerk; by Ray E. Lee, deputy clerk.

IN RE AIR-POLLUTION CONTROL

Resolution urging Congress to enact S. 2938 and S. 3115, and authorizing Harold W. Kennedy to support such legislation at hearing to be held in Washington, D. C.

On motion of Supervisor Jessup, unanimously carried (Supervisor Chace being temporarily absent), it is ordered that the following resolution be and the same is hereby adopted:

"Whereas there is pending before the Congress of the United States S. 2938 proposed by United States Senator Thomas Kuchel, of California, and United States Senator Capehart, of Indiana, and S. 3115 introduced by Senator Kuchel relative to air-pollution-control facilities and scientific research in the field of air pollution; and

"Whereas S. 3115 (Kuchel) would provide for a 60-month rapid amortization for tax purposes of facilities constructed by private industry for the control of air pollution; and

"Whereas, S. 2938, in addition to the accelerated writeoff provision, also would authorize insurance of loans to businesses or individuals to construct or install air-pollution-control facilities, and also provides an important provision authorizing and making an appropriation for scientific research in the field of air-pollution control, and would permit the Secretary of Health, Education, and Welfare to undertake research and studies cooperatively with agencies of State or local governments, and educational institutions and other nonprofit organizations. * * *; and

"Whereas such provision on scientific research would permit the Federal Government to enter into a contract with the Los Angeles County Air Pollution Control District: Now, therefore, be it

Resolved, That the board of supervisors of the county of Los Angeles, in accordance with the policy heretofore adopted by this board of supervisors, reaffirms its support of such Federal legislation which would accelerate the amortization

of money spent for air-pollution-control equipment, and hereby strongly supports the amendments to the Kuchel-Capehart bill, S. 2938, that would make available to the air pollution control district assistance from the Federal Government in connection with greatly needed scientific research in the field of air pollution; and be it further

"Resolved, That County Counsel Harold W. Kennedy, as an official representative of the county of Los Angeles, is hereby authorized and directed to support such legislation at the hearing scheduled in Washington, D. C., before the Committee on Banking and Currency scheduled for Wednesday, April 14, 1954; and be it further

"Resolved, That copies of this resolution be sent to United States Senator Kuchel and United States Senator Homer Capehart, and that copies be sent to all the Members of the congressional delegation representing the county of Los Angeles."

I hereby certify that the foregoing is a full, true and correct copy of a resolution which was adopted by the board of supervisors of the county of Los Angeles, State of California, on April 6, 1954, and entered in the minutes of said board.

HAROLD J. OSTLY,

*County clerk of the County of Los Angeles, State of California, and
Ex Officio Clerk of the Board of Supervisors of Said County.*

[SEAL]

By RAY E. LEE,
Deputy Clerk.

AMPLE AUTHORITY TO ABATE NUISANCES

Mr. KENNEDY. I would like to say briefly that from the standpoint of the legal aspects, there is no question at all that under the police power given to government, whether it be at the level of the State, the county, or the city—and most constitutional provisions in other States of the Union are the same as section 11 of article XI of the California constitution—that there is ample authority under the law to abate the air-pollution nuisance. As long ago as 1915 the Supreme Court of the United States in the *Northwestern Laundry v. City of Des Moines* case held that if it is necessary to close down a factory in order to abate an air-pollution nuisance under the police power, it is legal to do it. Obviously, in a modern community where you have a payroll dependent upon an industry and where you have a prosperous business, you would not, except as a last resort, wish to close down the industry in order to abate a nuisance. Therefore, the practical approach is to try to do something about it in a realistic way, that is set up standards of compliance and through scientific research and enforcement do everything that is practically possible to reduce the pollution.

We believe that with the three principal points of your bill that you have provided a legislative machinery which will assist city, county and State governments in whatever approach they desire to take as far as police-power jurisdiction, is concerned. You recognize the local autonomy of these agencies. You do not superimpose the power of the Federal Government upon them. You merely say, through the proposed amendments to S. 2938, "We will give you these supplemental aids." One of them that we like very much in Los Angeles County and one that will be of tremendous benefit is the provision respecting research. You have very wisely given great flexibility to the language of the research provisions and it would be broad enough, working through one of your Federal agencies, for example the Bureau of Mines and through Dr. Louis McCabe who formerly served as air pollution control director of Los Angeles County to permit

you to enter into a contract with the Los Angeles County Pollution Control District for a specific research project. The Federal agencies designated could enter into a contract with the Southern California Air Pollution Foundation which Senator Kuchel and Mayor Poulson referred to. It indicates the great interest on the part of the entire community in doing something about this problem.

Recently we had a research team come to Los Angeles from the State of Michigan, from the automotive industry. They came to Los Angeles for 2 weeks. They studied the Los Angeles smog problem, with particular reference to the effect of pollution from automobiles. We have come to the conclusion that there are three principal remaining uncontrolled sources of air pollution in the great metropolitan area of Los Angeles County. There is: (1) The pollution from the automobile (the hydrocarbon from automobile exhausts). We have more than 2 million automobiles in Los Angeles County. Then, (2) there is the hydrocarbon that comes from the petroleum industry itself, that is in the movement of gasoline from the tanks to the mobile trucks to the 8,300 filling stations that we have in the county, and then from the filling station into the tanks of the individual automobiles. In addition, there are the pollutants that come from the burning of rubbish. We have more than a million and a half incinerators in Los Angeles County. Then, the fourth category would be the general aggregate of pollutants that comes from all other types of industry which have been quite satisfactorily controlled.

I would like to place in your record an extended legal opinion which points up the need for the research provision in your bill. I will read one sentence from it. It is an opinion written by the Los Angeles County counsel's office that holds in effect that under the police power it would be legal to require the owner of every automobile sold for use in Los Angeles County to put an air-pollution device on his car when, after careful scientific research, such a device had been perfected and was tested as scientifically effective. That same thing, of course, would be true of any other local unit of government. (The document referred to follows:)

OFFICE OF THE COUNTY COUNSEL,
Los Angeles, Calif., October 27, 1953.

Re requiring air-pollution-control device on every new motor vehicle sold for use here.

Mr. KENNETH A. HAHN,

Supervisor, Second District, Los Angeles, Calif.

DEAR MR. HAHN: On September 14, 1953, you requested our opinion as to whether the board of supervisors, sitting as the air pollution control board, after notice and hearing expert testimony that automobile exhaust gases are a material contribution to the smog problem, could require every new automobile sold in this county for use here, including those sold in cities, to be equipped with a device which would eliminate or reduce exhaust gases, or set a time limit after which any new automobile, bus, or truck would be required to be equipped with such a device approved by the air pollution control district.

Our answer is that the rulemaking power of the board of supervisors, sitting as the air pollution control board, is broad enough to cover almost any conceivable situation in connection with the control of air pollution in this county. Such powers, however, may not be exercised arbitrarily, capriciously, or unreasonably. Board action must be based on proven facts or sound scientific opinion. As the engineers and chemists discover new sources of, or new remedies for, air pollution, the board's power extends to these new sources and remedies. Answering your question more specifically, the board will have the

power to require motor vehicles to be equipped with a device to eliminate the emission of air contaminants as soon as such a device is perfected, shown to be effective, available on the market, and the requirement of its use is found to be reasonable.

Our reasons are as follows:

The rulemaking power of the board of supervisors, sitting as the air-pollution control board, extends to everything which causes air pollution or emits contaminants.

Section 24260, Health and Safety Code, authorizes the board of supervisors, sitting as the air pollution control board, to make rules and regulations effective throughout the county. It reads as follows:

"The air pollution control board of an air pollution control district may make and enforce all needful orders, rules, and regulations necessary or proper to accomplish the purposes of this chapter for the administration of such district, and may perform all other acts necessary or proper to accomplish the purposes of this chapter."

The purposes of "this chapter" are stated in section 24198, which reads as follows:

"The legislature finds and declares that the people of the State of California have a primary interest in atmospheric purity and freedom of the air from any air contaminants and that there is pollution of the atmosphere in many portions of the State which is detrimental to the public peace, health, safety, and welfare of the people of the State."

Section 24262 states in further details the standards which the board must follow in enacting rules and regulations. This section reads as follows:

"Whenever the air pollution control board finds that the air in the air pollution control district is so polluted as to cause any discomfort or property damage at intervals to a substantial number of inhabitants of the district, the air pollution control board may make and enforce such orders, rules, and regulations as will reduce the amount of air contaminants released within the district."

We are informed that motor vehicle exhausts do emit substantial smoke and fumes. If so, they are therefore within the jurisdiction of the air pollution control board to regulate if it finds that the air in the district is so polluted as to cause discomfort or property damage at intervals to a substantial number of inhabitants and that the proposed regulation will reduce the amount of air contamination released within the district.

Were the situation sufficiently serious and the fumes from motor vehicles sufficiently dangerous to make such action reasonable, the board would probably be sustained in prohibiting the use of motor vehicles entirely, at least in the downtown area, until such time as a control device is available. Obviously, the situation is not critical enough now to justify such drastic action. We mention this only to show the extent of the board's powers when the facts make such action reasonable.

In *Ballentine v. Nester* (350 Mo. 58; 164 S. W. 2d 378, at 383), the city of St. Louis, authorized to abate smoke, adopted an ordinance prohibiting the burning of soft coal except when used with a mechanical stoker. In that case, the court said (164 S. W. 2d at 382-383):

"* * * There can be no doubt that under the above sections that the legislative department of the city of St. Louis has the power to abate the smoke nuisance in the city by any reasonable method. To accomplish that object, it enacted section 5340, supra. This section sought to obtain that object by regulating the kind of coal that can be burned in that city. * * * 'That the smoke nuisance is directly contributed to and almost wholly caused by burning of soft or bituminous coal is a matter of general knowledge, * * *' * * * 'The methods, regulations, and restrictions to be imposed to attain, so far as may be, results consistent with the public welfare, are purely of legislative cognizance. The courts have no power to determine the merits of conflicting theories, nor to declare that a particular method of advancing and protecting the public is superior or likely to insure greater safety or better protection than others. The legislative determination of the methods, restrictions, and regulations is final, except when so arbitrary as to be violative of the constitutional rights of the citizens.'"

"* * * It is 'sufficient to satisfy the demand of the Constitution if a classification is practical and not palpably arbitrary.'"

"Coal burned mechanically tends to create less smoke than the same coal burned by hand. Coal burned mechanically is distributed evenly in the firebox

of the furnace and would tend to produce less smoke than coal that is distributed unevenly by hand, and this is true even if firing by hand is carefully performed. Since there is a reasonable classification between how the same coal is burned, and it applied equally and uniformly to all coal users in the city of St. Louis, we cannot say that it is an arbitrary classification."

In *Northwestern Laundry Co. v. Des Moines* (239 U. S. 486; 60 L. Ed. 396, 401; 36 S. Ct. 208), the court said:

"So far as the Federal Constitution is concerned, we have no doubt the State may by itself, or through authorized municipalities, declare the emission of dense smoke in cities or populous neighborhoods a nuisance and subject to restraint as such; and that the harshness of such legislation, or its effect upon business interests, short of a merely arbitrary enactment, are not valid constitutional objections. Nor is there any valid Federal constitutional objection in the fact that the regulation may require the discontinuance of the use of property, or subject the occupant to large expense in complying with the terms of the law or ordinance. Recent cases in this court are *Reinman v. Little Rock* (237 U. S. 171, 50 L. Ed. 900, 35 Sup. Ct. Rep. 511); *Chicago & A. R. Co. v. Tranberger* (238 U. S. 67, 50 L. Ed. 1204, 35 Sup. Ct. Rep. 678); *Hadacheck v. Sebastian*, decided December 29, 1915 (239 U. S. 394, ante, 348, 36 Sup. Ct. Rep. 143).

"That such emission of smoke is within the regulatory power of the State has been often affirmed by State courts. *Harmon v. Chicago* (110 Ill. 400, 51 Am. Rep. 685); *Bowers v. Indianapolis* (169 Ind. 105, 81 N. E. 1097, 13 Ann. Cas. 1198); *People v. Lewis* (86 Mich. 273, 49 N. W. 140); *St. Paul v. Haughbro* (93 Minn. 50, 96 L. R. A. 441, 106 Am. St. Rep. 427, 100 N. W. 470, 2 Ann. Cas. 580); *State v. Tower* (185 Mo. 79, 68 L. R. A. 402, 84 S. W. 10); *Rochester v. Macauley-Fein Mill Co.* (199 N. Y. 207, 32 L. R. A. (N. S.) 554, 92 N. E. 641). And such appears to be the law in Iowa. *McGill v. Pintsch Compressing Co.* (140 Iowa, 429, 20 L. R. A. (N. S.) 466, 118 N. W. 786)."

See also: *Judson v. L. A. Suburban Gas Co.* (157 Cal. 168), where an injunction was granted at the request of a neighbor closing a gas plant where it was shown that, although it had the most modern equipment, it could not operate without emitting objectionable smoke and fumes. *Hulbert v. California Portland Cement Co.* (161 Cal. 239), where an \$800,000 cement plant was closed under similar circumstances, notwithstanding the fact that the defendant was willing to buy up all of the property affected by its cement dust. *People v. Selby Smelting and Lead Co.* (163 Cal. 84), where the court in Solano County enjoined the operation of a smelter in Contra Costa County during the 8 months of each year when the winds blew toward Solano County.

Rules of the air-pollution-control district are effective throughout the district. The district's boundaries are coextensive with those of the county (sec. 24201, Health and Safety Code). Thus, the rules of the district are enforceable within cities as well as in the unincorporated areas of the county. (See secs. 24247-24250, Health and Safety Code.)

Section 24246, health and safety code, authorizes the air pollution control officer to " * * * stop, detain and inspect any vehicle designed for and used on a public highway but which does not run on rails." Failure to stop for such inspection is a misdemeanor (sec. 24246, health and safety code). Clearly, the Air Pollution Control Act applies to motor vehicles the same as to other sources of air contamination.

The question might be raised as to whether the vehicle code has occupied the field so as to prevent the air pollution control board from adopting further regulations as to what equipment a motor vehicle must bear. Because of the different purposes involved, and because of the more recent and more specific authorization of the Air Pollution Control Act, we think that doctrine does not apply and the air pollution control board may require the use of such a device, if that is reasonable and practicable. Furthermore, division 9 of the vehicle code is entitled "Traffic Laws." It refers " * * * exclusively to the operation of vehicles upon the highways * * ." (Sec. 457, vehicle code.) It includes such matters as stop signs, reporting accidents, theft of a vehicle, speed limits, passing, turning, right of way, etc.

Section 458 (a) of the vehicle code, reads as follows:

"The provisions of this division shall apply uniformly throughout the State and in no local authority shall enact or enforce any ordinance or regulation which is inconsistent with this division unless ex-

Division 10 of the vehicle code deals with equipment, such as lights (sec. 618, et seq.), brakes (sec. 670), horns (sec. 671); mufflers (sec. 673), mirrors (sec. 674), windshields (sec. 675), safety glass (sec. 675.5), windshield stickers (sec. 676), and radiator ornaments (sec. 683). None of these provisions deal with smog control devices.

There is no provision in division 10 similar to the prohibition of local regulation in division 9.

"* * * Where a statute, with reference to one subject contains a given provision, the omission of such provision from a similar statute concerning a related subject is significant to show that a different intention existed" (23 Cal. Jur. 778, statutes, sec. 154); *People v. Buster* (11 Cal. 215 at 221); *Estate of Garthwaite* (131 Cal. App. 321 at 328, 21 p. 2d 465); *People v. Valentine* (28 Cal. 2d 121 at 142, 169 P. 2d 1); *Weil v. Superior Court* (97 Cal. App. 2d 373 at 377, 217 P. 2d 975 at 978); *People v. Town of Corte Madera* (97 Cal. App. 2d 726 at bottom of page 729, 218 P. 2d 810); *Richfield Oil Corporation v. Crawford* (39 Cal. 2d 729 at 735, 239 P. 2d 600 at 604).

We think it may be inferred that the legislature did not intend to occupy the field in connection with equipment required in division 10. Thus, the district may require additional equipment not in conflict with provisions of State law.

The classification of motor vehicles in division 10 of the vehicle code for the purpose of requiring certain equipment frequently distinguishes between new and old vehicles. For instance, section 619, as to the location of headlamps, provides: "* * * except as to vehicles registered prior to January 1, 1930." Section 621.5 requires vehicles to carry certain red reflectors after January 1, 1941, unless a different type was installed as original equipment prior to January 1, 1941.

Section 625 formerly provided that certain clearance lamps be used on or after January 1, 1940, but that "vehicles sold or operated prior to January 1, 1940, may be equipped with * * *" lights of another type. (See also secs. 645, 648, 670.4, 675.5, and 683, vehicle code.)

Section 660 provides:

"No dealer shall sell a new or used motor vehicle without first testing and, if necessary, adjusting the lights and brakes on such vehicle to conform with the provisions of this code unless such vehicle is sold for the purpose of being wrecked or dismantled."

Prior to 1951, this section provided: "No dealer shall sell a used motor vehicle * * *"

Section 676 provides: "* * * Every new motor vehicle first registered after December 31, 1949, * * * shall be equipped with two such windshield wipers * * *"

A regulation such as this is not invalid because it classifies the subject matter of the regulation. However, the classification must be reasonable in view of the purpose of the act. (*Rast v. Van Deman and Lewis Co.* (240 U. S. 342, 357; 60 L. Ed. 679); *People v. Western Fruit Growers* (22 Cal. 2d 494, 506-507).)

Thus, treating new cars differently than other cars is a valid classification if reasonable under the circumstances. The ease of enforcement and the practical advantages of having the air pollution control device installed either at the factory or by a responsible new car dealer would seem to be sufficient to justify a distinction between new cars and old cars. This is particularly true if the device is difficult to install or requires replacement of major parts of the motor vehicle.

Details of the proposed rule can best be worked out after some such device has been made available and its possibilities and limitations known. It may work on certain types of vehicles and not on others, or only with certain fuels. From its very nature it may have to be factory-installed. Or it may be so simple that anyone can install it in a few minutes, in which case it might be unreasonable not to apply it to all motor vehicles. If it is practicable to add the device to vehicles not so equipped at the factory, the rule could set a time limit after which the use of the device would be required on all motor vehicles. The rule should exempt vehicles sold here for use elsewhere.

It is not necessary that the legislation extend to all possible cases (*Miller v. Wilson*, 236 U. S. 373, 383; *Ballentine v. Nestor*, 350 Mo. 58, 164 S. W. 2d 378, 383). In the *Miller* case, the Supreme Court said (236 U. S. at 393-394):

"* * * The contention as to the various omissions which are noted in the objections here urged ignores the well-established principle that the legislature is not bound, in order to support the constitutional validity of its regulation, to

extend it to all cases which it might possibly reach. Dealing with practical exigencies, the legislature may be guided by experience. (*Patson v. Pennsylvania*, 232 U. S. 138, 144, 58 L. ed. 539, 543, 34 Sup. Ct. Rep. 281.) It is free to recognize degrees of harm, and it may confine its restrictions to those classes of cases where the need is deemed to be clearest. As has been said, it may 'proceed cautiously, step by step,' and 'if an evil is specially experienced in a particular branch of business' it is not necessary that the prohibition 'should be couched in all-embracing terms.'"

However, we are informed by the air pollution control district engineers that there is no device on the market as yet which will reduce or eliminate the emission of fumes from motor vehicles. One device is being tested, another is still in the designing stage. It is not known whether either will work. Neither is it known how long it will be before some such device, after being proved practicable, will be available commercially.

Until such a device is perfected and on the market, any rule requiring the use of the device is arbitrary, capricious, and void, unless the hazard to life and property is so great that a rule would be justified forbidding the sale or use of motor vehicles in this county. From the facts given to us, the board could conclude that there is no such emergency now in Los Angeles County. Once a satisfactory device is perfected, shown to be effective for the purpose and practicable in operation, then the regulation proposed could be adopted, allowing sufficient time before it becomes effective to get the device on the market in reasonable quantities. As it is impossible to tell when such a device may be invented, or, if invented, when perfected for motor vehicle use and shown to be practicable, no such regulation could be adopted now to be effective at a future date.

We conclude that the rule you suggest, with certain modifications, can be adopted when the required device is available, but not until then.

Yours very truly,

HAROLD W. KENNEDY,
County Counsel.

By ANDREW O. PORTER,
Deputy County Counsel.

Noted and approved:

HAROLD W. KENNEDY,
County Counsel.

Mr. KENNEDY. I am the county counsel of the county of Los Angeles. We have an air pollution control district created by the 1947 California Legislature. I was making reference to the situation as it exists, not only in Los Angeles County, but in other parts of the State and would not want the committee to believe that the air pollution problem was exclusively confined to the county of Los Angeles.

STATEWIDE PROBLEM

I recently attended and testified at a public meeting called by the board of supervisors of Alameda County, which is a large industrial county in the San Francisco Bay area. At that meeting they were determining whether or not to activate an air pollution control district under the 1947 State statute which I had been asked to draft for the board of supervisors of the county of Los Angeles in 1946, and its author Assemblyman A. I. Stewart of Pasadena. At this public meeting in Alameda County, the testimony was that as Alameda County became a large industrial community with a greater aggregate of pollutants, they, too, in time would have a serious air pollution problem.

The meteorologists testified at the Alameda County hearing that the whole Pacific coast area is affected by what the meteorologists call an "inversion ceiling." It is a high-pressure area or mass of warm air reaching out into the Pacific Ocean. Apparently, you are

miliar with it. In a very practical way, at certain times of the ar it creates what might be called a canopy of warm air that holds e colder air, together with the aggregate of pollutants, close to the rth. Sometimes the ceiling will be as low as several hundred feet. aybe it will be a thousand feet, or fifteen hundred fet. Until there enough air activity that will create a hole in this ceiling and in ect blow out the basin, then this pollutant is there for an extended riod.

Two years ago, there was one sustained period of inversion weather ere for 21 days there was this peculiar meteorological condition. Last week I addressed a public meeting in the city of San Diego at e invitation of the board of supervisors and the district attorney. ie county of San Diego is considering creating an air pollution strict, and several civic organizations are recommending one before e problem becomes acute.

Here is a copy of the Pasadena Star News of only last Saturday, ril 10, 1954. They reported a story that came out of a report m the scientists from Stanford Research Laboratory where a Mr. ul A. Magill, the technical director, gave the figure at a statewide eting of the State chamber of commerce, "that smog is costing the tion \$1,500 million a year, or about \$50 a family."

I would like to have placed in the record this story from the sadena Star News.

Senator GOLDWATER (presiding). That will be received and made a rt of the record.

(The article referred to follows:)

[From the Pasadena (Calif.) Star-News, April 10, 1954]

OG COSTS NATION \$50 PER FAMILY—INDUSTRY DECLARED HARDEST HIT—STANFORD STUDY POINTS OUT STAGGERING LOSS

AKLAND, CALIF.—Scientists from Stanford University have estimated that g is costing the Nation \$1.5 billion a year, or about \$50 a family. ul A. Magill, technical director at the Stanford Research Laboratory, gave e figures concerning air pollution at the State chahmber of commerce conven- here yesterday.

agill said industry had the most to lose by letting the air pollution problem inue without a solution. Valuable industrial materials, especially sulfuric went up in smoke every day, he said.

e also pointed out that smog has given industry some poor public relations some people have gone as far as legal action.

rveys in the Los Angeles area, Magill stated, showed that 2,600 tons of ma- ls were going up in smoke daily. Of this amount, 1,000 tons came from auto truck exhausts.

agill recommended that industry take the lead in air pollution control and educate the public how best to combat it.

LOS ANGELES COUNTY HAS TAKEN MANY STEPS TO ABATE SMOG

lr. KENNEDY. I would like to also make the point that as far as county of Los Angeles is concerned, we have not come to Govern- it for a grant-in-aid without having taken very stern steps to to find our own solutions. Up to the present time, since the ac- tion of the air pollution control district in October of 1947, the of Los Angeles has spent more than \$2 million out of its gen- eral fund. At the present time, we have 126 employees in the air district. I recite that because in a practical way the pro-

visions of the Capehart-Kuchel amendment to the bill as a whole will not change the principle that it is the responsibility of government to move forward under its own police power to abate, and as far as activation and enforcement it is a matter for local determination.

FLEXIBILITY UNDER CAPEHART-KUCHEL AMENDMENT

The things that would be made possible under the proposed amendments to this bill would fit in very well in not disturbing the principle of local autonomy, in not changing the local responsibility, in not putting the Federal Government in the enforcement business, but the Federal Government would be giving very great assistance to cities, counties, States and special districts.

I would like to read into the record a statement from Gordon P. Larson, the director of the Los Angeles Air Pollution Control District, in support of Senate bill 2938:

The following information is submitted to show the cost of control equipment installed to reduce atmospheric pollution in Los Angeles County in the past 5 years. The amounts include total costs for a great variety of control devices on virtually every type of industry in this community.

NEED OF COOPERATION FROM INDUSTRY

As of March 1954, there has been spent, because of the strict enforcement rule of the Los Angeles County Air Pollution Control District, a large amount of money by industry for abatement devices exclusively (these figures which I will give do not include any revised operating costs where they reconstructed their plant, the effect of which might be to reduce the smog pollution). These figures represent cost of special devices such as scrubbers, cyclones and different types of mechanical equipment where industry has been forced, under the strict enforcement policy of the Los Angeles County Air Pollution Control District to make an expenditure from which they receive no revenue. The total to date is \$21,104,000.

I will ask that that also be placed into the record.

Monitor (GOLDWATER. That will become a part of the record.

(The information referred to follows:)

COUNTY OF LOS ANGELES,
AIR POLLUTION CONTROL DISTRICT,
Los Angeles, April 9, 1954.

Statement in support of S. 2938.

CHAIRMAN OF THE SENATE COMMITTEE
ON HEARING AND COMMUNITY,
United States Senate, Washington, D. C.

DEAR SEN. The following information is submitted to show the cost of control equipment installed to reduce atmospheric pollution in Los Angeles County in the past 5 years. The amounts include total costs for a great variety of control devices on virtually every type of industry in this community.

June 1950	\$3,924,600
June 1951	11,900
June 1952	10,000
June 1953	1,600
March 1954	1,600

I trust this
Respectfully

Mr. KENNEDY. Then, Senator, for such portions of it as the staff officer of your committee would deem advisable, I would like to make reference to a very extended article in the *Chemical and Engineering News* of March 22, 1954, entitled "Smog Scramble Spans Nation."

It deals with the various geographical areas and shows that in addition to California, that in Oregon, in Washington, on the gulf coast, in the East and in the Midwest, there are air pollution problems.

Senator GOLDWATER. It will be made a part of the record.

(The article referred to follows:)

[*Chemical and Engineering News*, March 22, 1954]

SMOG SCRAMBLE SPANS NATION

Tons of "hot air" have been generated and released over public annoyance No. 1.—Scientists at least have succeeded in pinning down specific causes, and in some types have achieved high rate of control.

Air pollution is receiving more attention than ever before. Residents and politicians clamor for a pure, clean, and healthful atmosphere. Some cities, to be sure, have effected very satisfactory control; others have been much less successful in coping with this problem that follows rising population and industrialization.

The problem is far from easy to solve. Contaminants, their sources, climatic conditions, surrounding terrain—all make control an enigma peculiar to each area. Even the experts cannot agree as to what all the pollutants are, whether they are hazardous, and, if so, in what amounts. For many communities it is no longer just a question of smoke, soot, fly ash, and smell from the stockyards. Temperature inversions, photochemical reactions, and hydrocarbon peroxides are new words which have entered the everyday language and indicate the complexity of the situation.

People become vitally concerned when reminded of several severe air pollution attacks: the Meuse Valley disaster in Belgium of 1930, when a heavy smog caused 60 deaths; the Donora, Pa., incident of 1948, when 6,000 were made ill and 20 died; the Poza Rica, Mexico, disaster, with 320 hospitalized and 20 dead; the sensational London killer fog of 1952, which chalked up 4,000 deaths. These, however, are the dramatic exceptions, and many a citizen is able to work up more ire over the day-to-day manifestations—eye and throat irritations, poor visibility, and vegetation and paint damage.

Civic, legislative, industrial, and private groups are looking into the problem. Many communities are taking concrete steps toward solution, either through legislation or persuasion. Industry is making great effort in many regions to become a better neighbor. In addition to installation of control equipment and resulting reduction in air pollution, industry is supporting research to determine its effect on pollution. In many cases, it is making conscientious effort to make satisfactory settlements with those who have suffered economic losses.

SITUATION IN THE EAST

Many eastern cities have good records in reducing air pollution—Pittsburgh, Cleveland, and Cincinnati, to name a few. But last November the most serious smog in years blanketed the area from New England to Virginia. Called "smaze," the pollution was haze (of nonlocal character, New Yorkers say) plus smoke and other local polluters—but humidity remained low until late in the week. Then a combination of smoke, haze, and fog produced a soup that caused widespread irritation, more annoying than dangerous. New York officials who normally claim that smog there "won't burn your eyes" experienced an epidemic of scratchy throats and irritated eyes—and women in Philadelphia and other areas resorted to war-surplus gas capes for protection.

In New York, Consolidated Edison Co. uses approximately one-third of all the fuel and one-half of all the coal. The company has been an active advocate of control, and with work completed, underway, and projected, has put over \$28 million into control equipment. Marked improvement in all plants is a result.

Some experts think that New York is doing only 50 percent as satisfactory a job as it might. Here, as in other areas, politics often hampers control. The department of air-pollution control depends on politicians for appropriations

as well as enabling legislation. Ironically, one of the biggest polluters in the area is the city itself. Board of transportation plants, which generate power for the subway system, pour out clouds of black smoke. Officials have frankly explained that their equipment is old. Until recently, no money has been available for installation of smoke equipment. Apartmenthouse oil burners, which in recent years have increased greatly, use No. 6 fuel oil, a heavy, black, viscous fuel which gives off considerable smoke.

And—as San Francisco blames East Bay Oakland when the Golden Gate City's usually clean fog becomes contaminated—New York says that a strong contributing factor is effluent of manufacturing area of New Jersey, which prevailing westerlies carry into New York. Several years ago, an interstate sanitation commission was set up for a joint study. The advisory commission was doomed to failure as New Jersey never did divvy up its \$30,000 portion.

In New York City, some say that smog will never be eliminated until money is spent on the same scale as for other public-health problems. The department of air pollution has 30 inspectors, a chemical staff of 4, a meteorologist, and 7 technicians. Inspectors can inspect and issue summonses and warnings. Lab staff checks various pollution indexes, investigates pollution problems requiring technical knowledge, acts as experts in court cases, and does some research.

Three general indexes of air pollution used are soot fall (varying from 30 to 150 tons per month per square mile), and levels of carbon monoxide (0.04-0.2 p. p. m.), and sulfur dioxide (in "smaze" of last November, sulfur dioxide level was 0.86 p. p. m.). Consistently high levels of sulfur dioxide corrode buildings and monuments, marble and limestone being severely attacked.

Typical of the many companies doing an outstanding job is Du Pont. It considers pollution abatement of major importance and long ago decided that it should have continuous study of the type applied to safety and fire prevention. As of last October, Du Pont expenditures on air- and water-pollution control totaled \$35 million. Last year, 59 percent was for air pollution control—first time it exceeded that for industrial waste.

CITIES OF THE MIDWEST

In Chicago, where concern is chiefly with dust fall, tests show that 1953 was the cleanest year on record. Average monthly dust fall was 53.61 tons per square mile (\$3.6 tons in 1936).

The Department of Air Pollution Control has actively advocated that control could be established only through cooperation of residential, commercial, and industrial contributors, recently pointing out that apartments and large heating plants are responsible for 43 percent of Chicago's smoke as contrasted with 3 percent some 20 years ago.

Armour Research Foundation measures and analyzes Chicago's dust fall each month. Armour is also making statistical studies of data from the control board to establish relative importance of various sources. Too, ARF acts as consultant for planning and zoning commission. American Petroleum Institute sponsors studies at ARF to improve methods of ozone analysis. API is also providing for study of petroleum combustion products in air.

In the Detroit-Windsor area—third largest manufacturing region in North America—a program has been under way since 1949 by the Internal Joint Commission to determine the influence of air pollutants on community health. Studies of existing health records covering mortality are being made on both sides of the Detroit River, with control studies being carried out in a nearby, non-industrial city.

A new voluntary organization, Detroit-Windsor Regional Association of Air Pollution Control Officials, acts as a forum where ideas can be discussed and disseminated. In Detroit, group responsible for control includes 3 engineers, 2 chemists, and 17 inspectors. This group attempts to identify sources of pollution and determine effects on vegetation, corrosion, soiling, visibility, and health.

THE GULF COAST

In 1951, a petition bearing 5,000 signatures from a group of citizens who lived in a small community called Greens Bayou, near Houston, Tex., was directed to the Texas State Department of Health. The petition asked relief from severe fumigations occurring in vicinity—an area in which one doctor had stated that whenever the wind blew from the east, he could expect to have an average of 20 patients with bronchial inflammation, where ordinarily he had 3 or 4. The

State agency decided it would be better to start air pollution abatement before it became more serious.

Rapid industrialization of the gulf coast area occurred during World War II, with larger industries locating along the Houston ship channel. Feeling it a part of their patriotic duty, residents contended with plants with poor effluent control, but after the war was over, demanded a stop to poor plant operation and are pressing for immediate control measures.

Along the channel, the problem is one which embraces everything in the book. Organic contaminants include hydrocarbons, combustion products from flares, pits, and incinerators. There are considerable losses from gasoline storage tanks. In Houston, there is a fair amount of exhaust fumes from automobiles and buses. Sulfur dioxide and hydrogen sulfide, chlorine, nitric oxides, fluorides, metal fumes, and paper mill wastes are among inorganic contaminants. Paint damage to houses and automobiles occurs occasionally—industrial dusts have been known to pit automobile finishes after 4 hours of exposure. North side of the channel has been affected to some extent—there has been damage to trees and vegetation, and florists have moved out of the immediate area. Tonnage-wise, area has been said to throw more chemicals into the air than any other industrial locality in United States and Canada.

In Houston, the chamber of commerce has an industrial pollution committee (an 8-year-old advisory group with 90 percent of its work in ship channel area outside corporate limits of city). A community council air pollution committee, sponsored by the united fund, was organized in 1952 and has been active in conducting an educational campaign, interviewing alleged industrial offenders, and supporting the establishment of a third group, the stream and air pollution control section of the Harris County Health Unit. The last group is the actual control unit, the only such unit in Texas. Staff consists of a director, stream pollution engineer, two field engineering assistants, a chemist, a biologist, and a secretary—budget for this year is \$45,000.

Principle on which the abatement problem is being attacked is that each plant should reduce its individual pollution to some extent even though its pollution is relatively minor compared to other plants. All are expected to tighten up operation procedures, make use of collection devices, and refrain from unnecessary release of contaminating materials. In Harris County, it has been decided that instead of fixing a definite concentration of noxious contaminants in stacks, only that amount which does not materially affect residents in close proximity to plant is allowed.

In January 1953 a survey indicated 50 percent of the plants along the ship channel were actively engaged in solving their particular problems. About 41 percent were still just talking, and only 9 percent actually did not intend to do anything. A later report indicates that about 75 percent are now actively doing something, the increase in interest being a probable result of forming the Harris County unit.

Gulf coast area in general has received nature's help in solving air pollution problems. The terrain is essentially flat, wind predominantly prevailing according to seasonal variation. Temperature inversions occur about 180 days out of the year and extend over an area from below Corpus Christi, Tex., to Lake Charles, La., and as far inland as San Antonio. From a meteorological standpoint the Gulf coast area presents an entirely different picture from the classical conditions of Los Angeles, Denver, and other communities. For the most part ideal conditions prevent a buildup of concentrations. Otherwise the general area would be in very bad shape.

SOUTHERN STATES

Quick look-ins at other parts of the South show that in Tennessee there is no official agency responsible for air pollution on a State level. The five industrial areas, however, all have some form of pollution control, with Kingsport having a modern atmospheric pollution ordinance similar to that of St. Louis.

In South Carolina, there are no State laws specifically dealing with air pollution. Columbia has had a smoke abatement officer for 1 year; Charleston has an industrial hygienist whose concerns include air pollution.

Birmingham, Ala., has a smoke abatement ordinance which was adopted in 1945. Last year there were 2,700 complaints, most of which were minor, caused by small businesses, apartment buildings, locomotives. Industries in the area are reported to be cooperating fully and backed enactment of the ordinance.

THE SMOG OF LOS ANGELES

As one wag has commented, "If we could harness all the hot air generated over our smog, we probably could blow all the stuff into Death Valley and save millions." The area has been the scene of many a bitter charge and counter-charge, with "acrimation" rising and falling with the lachrymation of its inhabitants. The 1,200-square-mile Los Angeles basin, bounded on two sides by high mountains, victim of frequent temperature inversions and too feeble winds, and growing at a rate of 190,000 people per year, enjoys the dubious distinction of being the Nation's severest air pollution sufferer. Complicating Los Angeles' problem is the high oxidant content of its atmosphere, most of which has been identified as ozone. On January 30, 1954, oxidant concentration was 80 parts per hundred million as contrasted with a high of 20 parts per hundred million for Detroit.

The Los Angeles County Air Pollution Control District operates under a 1947 State act (first such State act of its type) which provides for county control of air pollution. The Los Angeles district, in addition to being the first organized, is noteworthy in that it is the first to attempt quantitative regulation of contaminants in addition to smoke, soot, and fly ash. First emphasis was placed on stopping sulfur dioxide effluents; today, SO_2 content of the air has been reduced over 50 percent, with 350 tons now being collected daily at refineries. Miscellaneous industries have reduced dusts, fumes, and general aerosol contaminants by an estimated 70 tons per day. The petroleum industry has reduced hydrocarbon evaporation by 380 tons per day. It also is covering large storage tanks, still has about half of its tanks to cover.

The bill to Los Angeles industry for this: \$20 million since 1948 for control equipment alone, plus uncounted millions for improved designs for new installations to stop pollution before start-up. Yet control, as any weepy-eyed Angeleno can tell, is not complete.

The internal-combustion engine exhaust is one of the major remaining sources of uncontrolled pollution, the district believes, and it points out there will be days of eye irritation, especially in the downtown area, until the sprawling county's 2 million autos, buses, and trucks no longer spew forth an estimated 900 to 1,200 tons of hydrocarbons each day. Various catalytic devices attached to exhausts or built into combustion chambers, have been suggested or tested, and the Automobile Manufacturers Association has had a task force of experts in the area cooperating in research. Despite claims, no device has as yet been approved.

Hydrocarbon vapors from the area's burgeoning refineries (700,000-barrel-per-day capacity, presently being expanded by about one-third) are the second major remaining pollution source. The oil industry has made the largest single contribution to control, with an estimated \$17 million to be spent by 1955.

Backyard incineration (Los Angeles has no public collection of combustible refuse, households collectively dispose of some 6,000 tons daily) has got to go, say control officials of what they term the third major uncontrolled smog source. Here again, controversy. It is said that incinerators contribute 100 tons of smoke particles per day. Stanford Research Institute estimated in 1950, after 3 years of study, that backyard incinerators contributed about 570 tons per day of aldehydes, ammonia, nitrogen oxides, acids, organics, solids, and sulfur oxides (based on an estimated "charge" of 4,000 tons per day).

Say incinerators defenders: The contribution is more like 3 percent of total smog; the fleet of trucks necessary to collect all the rubbish would put more pollution in the air than collection would stop. Furthermore, runs the counter-argument, hydrocarbons (which, according to the Haagen-Smit theory, are the real, major culprits in Los Angeles) have not been detected in incinerator effluents. It is significant to note, however, that a medical researcher has said these same incinerator effluents have caused skin cancer in mice, as have diesel and gasoline exhausts and natural and artificial smog.

Latest entrant for air pollution abatement sweepstakes in Los Angeles, which probably has more official, quasi-official, and private organizations, or committees per smog particle than any other area, is the Southern California Air Pollution Foundation. Sparked by Pacific Mutual Life Insurance President Asa Call last autumn, some 140 southern California business and university leaders banded together to incorporate a foundation of 19 trustees to attack the area's smog problem.

SCAPF has remained quietly out of hassles, made its first public move when it hired Lauren B. Hitchcock as president (C & EN, February 15, p. 565). SCAPF plans to do no research itself but will act as a focal point for information,

help coordinate research activities of other groups—government, university, and industry—and financially support research on smog not already undertaken.

This will take time and money—Hitchcock says he expects the budget to be about \$1 million annually. The entire cross section of southern California community life—industry, businessmen, and associations, civic organizations, private individuals—is contributing funds. Government—Federal, State, and local—will probably not be able to contribute directly to the foundation because of legal complications, but will finance approved projects recommended by the

EFFECT ON HEALTH

"No one," says California Department of Public Health Deputy Director Malcolm H. Merrill, "can undergo the symptoms of irritation to the eyes and respiratory system that accompany exposure to periods of severe smog in the Los Angeles area without becoming convinced that it violates a broad concept of public health as related to environmental sanitation."

Dr. Merrill, queried by C & EN as to health problems associated with smog, notes the real question is: Are effects of smog on health severe enough for public health agencies to use police power to correct air pollution in urban areas?

This question, he points out, is only now beginning to be answered. Laboratory tests (animals and men) with relatively high concentrations can give clues to acute effects of short-time exposure; studies of two population groups (as in the Detroit-Windsor study) can show long-range effects.

Dr. Merrill feels that smog chemistry is sufficiently well understood that large-scale efforts along both these lines would be justified. Work on vegetation has made much progress, but physiological effects of smog inhalation by man is almost untouched.

Determination that smog has an identifiable adverse effect on health will be most effective in stimulating corrective action.

John W. Mehl, Paul Kotin, and Hugh A. Edmondson, University of Southern California School of Medicine, have been working for some time on biological effects of air pollution under USPHS grants. While their experiments are admittedly inconclusive—and are being continued—the specter of cancer looms. Extracts from natural and artificial smog, diesel and gasoline engine exhausts, residential incinerator soots, and air-blown-asphalt plant effluents reportedly can cause skin cancer on mice.

While many loose ends remain, this much seems certain: many polycyclic hydrocarbons, including known carcinogenic hydrocarbons—pyrene, benzpyrene, benzperylene, anthanthrene—have been found in types of smog listed in the foregoing. Major questions still unanswered: Will these pollutants cause lung cancer? (Inhalation studies are being started by the University of Southern California men.) Are the pollutants in sufficient concentration in smog to cause cancer?

Largely as a result of concerted effort by industry, university, and private research organizations, a fair catalog of plant damage symptoms has been assembled. Knowing what pollutant causes which damage gives industry a good start toward installing proper control. Notable have been results on fluoride damage and control by aluminum plants in the Pacific Northwest.

University of California is pushing research on the agricultural front because of an estimated \$3 million damage to State crops in 1953. Vegetable crop and citrus damage in the Los Angeles area has grown yearly; today, romaine lettuce, endive, spinach, celery, and garden beets are particularly hard pressed there.

As a result of a cooperative study among University of California, Los Angeles, county air pollution control district, and Caltech, findings on the role of hydrocarbons in the air were announced by Gordon P. Larson, director of the district, and A. J. Haagen-Smit, Caltech: Reaction products of unsaturated hydrocarbons and ozone are primarily responsible for the natural damage observed.

Typical of work being done for agriculture is that centered at Riverside: effects on plant enzyme systems, photo-synthesis, respiration, and permeability; effects of ozonated olefins on citrus; plant screening to secure varieties resistant to oxidized hydrocarbons; protection techniques.

In connection with this latter aspect, John Middleton (Riverside plant pathologist) and coworkers have found in laboratory experiments that certain dithiocarbamates, when waved or dusted on plants, offer a measure of smog protection. How long the effect lasts under field conditions, what the protection mechanism might be, how growers might utilize the technique awaits results from field experiments which Middleton hopes to start soon. Important potential of

the method: the proposed compounds are already used by growers for fungus control, could conceivably do two jobs and not require additional chemicals or applications.

Smog control in the San Francisco Bay area, with the exception of one county which has acted on the 1947 State law, is still on a voluntary basis, with considerable divergence of opinion as to the efficiency of voluntary versus stringent control. Voluntary control, claims proponent San Francisco Bay Area Council (C & EN, February 15, p. 668), a civic organization, would be between 60 and 85 percent effective if given a chance. Not so, counter some health officials. In one county (Alameda, the most industrial of the 9 bay area counties), officials note that only 10 of 100 industrial polluters surveyed in 1952 had installed control devices by 1953. (Meanwhile, Bay Area Council has employed Patrick J. Moran, former chemical warfare expert, to direct its program.)

Therefore, some advocate establishment of regional, cooperative control under present State law. Others believe the best solution would be for special State formation of a regional authority.

That solution, however, is not just around the corner. The California Legislature's next regular session is not until 1955, and it is highly unlikely air pollution will be on a special session's agenda.

AIR POLLUTION IN OREGON

In August 1951, the Oregon Air Pollution Control Act became effective, making Oregon the Nation's first (and still only) State to have a State organization specifically for air pollution control. Fluorine effluents from aluminum reduction at Troutdale, Oreg., and Vancouver, Wash., plus excessive dust and smoke, mainly from lumbering activities, were most pressing problems, although small areas were bothered by fumes or aerosols from a variety of operations, such as chemical, paint, manufactured gas, and kraft pulp plants.

The air pollution authority has confined itself to determining air pollution levels—mostly of particulate matter—investigating complaints, making local surveys requested by city councils, and attempting to prevent new pollution sources from being established.

WASHINGTON'S PROBLEM

Like Oregon, Washington air pollution has consisted mainly of smoke, fly ash, and fluorides. However, growing electrochemical, thermochemical, and chemical processing industries point toward further pollution unless controlled. Air-pollution control at the State level is currently covered only by the usual type of general nuisance legislation. An act, passed by the last session of the legislature, set up an air-pollution unit within the State pollution authority (water), but no funds were appropriated. Tacoma currently has the only effective air-pollution ordinance in the State.

During the past 10 years, observed damage has been mainly foliar burn to sensitive plants by hydrogen fluoride and sulfur dioxide. The major known sources of fluorides and sulfides have spent well over \$15 million to control these pollutants during the past 4 to 6 years.

In the Pacific Northwest, the aluminum reduction industry has been the perennial whipping boy and sufferer of many a damage suit because of fluorides, but now, thanks to a concerted cleanup campaign, it apparently has its fluoride problem licked. Latest evidence comes from a final report by Oregon State College and State College of Washington researchers released last month on Alcoa's Scurie Island plant.

Alcoa spent about \$1.5 million at Vancouver for fluoride control; Reynolds, \$2.5 million at Troutdale, Oreg.; Kaiser will have spent about \$7.5 million when its Tacoma plant is completed this fall at Mead, Wash. (Kaiser's Tacoma plant had to make controls already installed when Kaiser purchased it.)

Among the most active groups studying smog is Stanford Research Institute, one of the most known air-pollution problems. Stanford Research Institute is working on Alaska fogs. Water, ordinarily a desirable atmospheric constituent, can become a source of man-made air pollution. In parts of Alaska where temperatures drop below -20° F., water as steam becomes a potent source of fog, or advection fogs. These fogs are sufficiently dense to prevent air-pollution reduction. Exact nature of the fogs has been studied for the past three winters.

LONDON FOG

With memory of the death of 4,000 persons as a result of the "killer fog" in London in December 1952 still fresh in their minds, Londoners are justified in becoming excited when heavy fogs are predicted. There, much of the blame is placed on smoke from domestic coal burners. In July 1953, a Committee on Air Pollution was appointed "to examine nature, causes, and effects of air pollution and efficacy of present preventive measures; to consider what further preventive measures are practicable; and to make recommendations." In an interim report presented last December, committee states most serious immediate problem in air pollution is combustion of fuel. Chief pollutants are smoke, sulfur dioxide, carbon monoxide, and grit. The domestic fire was reported biggest single smoke producer. In ratio to coal burned, it was said to produce twice as much smoke as industry and discharge it at a lower level.

In some areas in the United States concentration of sulfur dioxide has been reduced greatly with no apparent decrease in eye-irritating smog. In the interim report, however, there is a clear correlation between pollution by smoke and sulfur dioxide and the daily death rate in Greater London during the fog of 1952. Data also indicate a continuing abnormal death rate in London during the two and a half months following the smog.

The committee advocates conversion of bituminous coal into coke, gas, and electricity, and substitution of smokeless fuels for domestic purposes. It recommends replacement of old-fashioned domestic grates by improved appliances. Greater use of central smokelessly fired boilers for blocks of buildings is proposed. In industry, promotion of greater fuel efficiency is needed. Furnaces fired by pulverized fuel or operated by forced draft need more efficient grit-arresting facilities. Coal should be cleaned at the coalfields of shale and some of the sulfur compounds. Research and development work on practicable methods of removing sulfur dioxide from flue gases is urged.

A ban on open fires in Britain would save from 10 to 15 million tons of coal a year. Installation of stoves to replace fireplaces at Government expense has been proposed as economically sound. Some communities are already offering subsidies to householders who will make the switch.

However, came late 1953, thick fogs threatening, a repetition of the disastrous one of a year before, rolled into London and sent its populace rushing to buy smog masks. Gauze masks, distributed gratis by Britain's socialized medicine program, were also in use.

PARTICIPATION BY ASSOCIATIONS

Chemical professional organizations have also become involved in the fight to restore pure air. The Manufacturing Chemists' Association sponsored establishment of an Air-Pollution Abatement Committee in 1949. The committee considers detection and measurement of air contaminants, factors affecting dispersion of solids, vapors, allowable concentrations from standpoint of toxicity, nuisance, and odor, and control methods and methods of treatment. It holds regularly scheduled meetings and annual conferences. Forthcoming conference next month (April) in Houston is expected to attract largest group of air-pollution experts ever assembled.

The American Chemical Society established an air-pollution committee at its council meeting in April 1952. This group considers physiological, biological, and nuisance effects of smog as well as effect on paints and other protective coatings. Several symposia have been held at the society's national meetings. American Society of Mechanical Engineers and other groups also have committees studying the problem.

NEED FOR RESEARCH REGARDING SMOG CAUSED BY AUTOMOBILES

Mr. KENNEDY. I would like to give an example as to how the scientific research provisions of the Capehart-Kuchel amendment, in a very practical way—without setting up an additional layer of bureaucracy from the standpoint of laboratories or technicians—could use the existing machinery of the Government, and its various departments, for example, the splendid laboratory under the Public Health Service that has just been renamed the Robert Taft Laboratory in Cincinnati.

The equipment and the personnel under the director of Dr. Louis McCabe of the Bureau of Mines, who is highly experienced in this field and who is already familiar with the problem in various parts of the country, could be made available. There is great need for immediate research in the field of the contribution that the automobile makes to the air-pollution problem. Not only Los Angeles County but the entire Nation is interested in this phase, as it is not local in nature.

The figures which we have indicate that in Los Angeles County alone, with our more than 2 million automobiles, there are approximately a thousand tons a day—a thousand tons every 24 hours—of hydrocarbons from these more than 2 million automobiles. From the standpoint of finding a solution as to whether or not, mechanically, there is a device such as a catalyst that could be placed on the automobile as a part of the muffler that would dissolve these pollutants is possible under the Capehart-Kuchel amendment dealing with scientific research.

It would be of great benefit to the entire Nation for this type of research to be carried on. What is done in connection with the automobile would be helpful to every part of the country. When it comes down to a problem like the general aggregate of pollutants in the Los Angeles area, that come from all industries, and specifically the type of pollutant that comes from the hydrocarbons from the petroleum industry, when you get down to those refinements, scientifically, you would have to deal with Los Angeles smog.

MOST PROBLEMS REQUIRE SPECIFIC RESEARCH

Whatever is happening, chemically, in the air over Los Angeles with the new ozone factor as pointed out by some scientists—which has been a subject of recent research—where you have peculiar chemical reactions in the Los Angeles area, they would require separate research. You couldn't take your findings from soft coal in St. Louis, or the findings from what is happening in Pittsburgh, and make them, in a practical and realistic way, applicable to the Los Angeles area. Each community generally must deal with its own smog.

But if the other machinery of the Government and the laboratories and the technicians were made available, maybe in a joint-enterprise project as between the Los Angeles County air-pollution control district and the Bureau of Mines, or United States Public Health Service agency in Cincinnati, considerable progress could be made.

I would like to make reference to a very important scientific report that was prepared by Dr. Arnold O. Beckman and a special committee of experts. He is chairman of the Beckman Instruments Corp., of South Pasadena. Participating also in this study was Dr. A. J. Haugen-Sundt, well known professor of biochemistry at the California Institute of Technology at Pasadena. In addition there were three other scientists taking part in the report.

In the summary of the findings, specific reference is made to the need for extended scientific research. It recognizes that there is a great deal yet to be done. Seven specific findings are made which, by their very nature, indicate the magnitude of the problem and the soundness of the Federal Government entering the picture in an ~~assessing~~ manner in the way I have outlined in my testimony.

For example:

1. The recommendation is made in Dr. Beckman's report that all open skimming ponds, separators, sumps, and sewers associated with the production and refining of petroleum shall be prohibited.

2. That gasoline transfers involving mobile carriers shall be prohibited unless some means are provided for preventing escape of vapors to the atmosphere.

3. The problem of spillage and loss of volatile hydrocarbons at filling stations shall receive immediate attention to the end that suitable equipment and producers for controlling this source of air pollution are put into use at an early date.

4. The feasibility of reducing or relocating existing facilities and curtailing further expansion of air-polluting industries, such as petroleum refining, shall be actively investigated.

5. Enforceable regulations for the control of obviously offensive fumes from automotive exhausts shall be immediately established and enforced.

6. Large motor vehicles, particularly buses and trucks, shall be required to use liquefied petroleum gas or equally satisfactory means for abating noxious exhaust fumes as rapidly as possible.

7. Systems for the collection and disposal of all combustible rubbish shall be established promptly and local burning shall thereafter be prohibited.

These seven far-reaching recommendations were made by this scientific committee, which came out of a series of conferences called by Gov. Goodwin J. Knight, of California. The Board of Supervisors of the County of Los Angeles now has them under careful consideration in order that every single act may be taken which will improve the smog menace.

In closing, I would like to emphasize that from the standpoint of public policy, the Los Angeles County Air Pollution Control District takes the position that in the interest of the people, we must look at this problem as the No. 1 problem confronting the county. So we say in effect, whatever it is, whatever the sources are of the respective contributions they must be abated as far as chemical and engineeringly possible.

If it creates great expense to industry, in the public interest, such expenditures must be made. In other words, the police power of the county must be used to save southern California from becoming spoiled by the air-pollution menace. In a realistic way, Los Angeles County is trying to capture back the clean, pure air that we have known in southern California for many years and we believe that through the cooperation that is now being received from industry—and that includes very definitely the petroleum industry. The petroleum industry now recognizes its public relations problem in this regard. Some of the presidents and general managers of the oil companies have recently pledged to the people their fullest cooperation. So that in a very real way we feel that we are making progress.

If this bill is passed by the Congress, it will accelerate the speed with which we can find an ultimate and I hope a satisfactory solution to the problem.

I would like to place in the record the report of the special technical committee that I have read from entitled "The Beckman Report."

Senator GOLDWATER. The whole report will be received and printed as a part of the record.

(The report referred to follows:)

REPORT OF SPECIAL COMMITTEE ON AIR POLLUTION—MADE TO GOV. GOODWIN J. KNIGHT'S AIR POLLUTION CONTROL CONFERENCE

(State Building, Los Angeles, Saturday, December 5, 1953)

Prepared by: Dr. Arnold O. Beckman, chairman, president, Beckman Instruments, Inc., South Pasadena; Dr. A. J. Haagen-Smit, professor of biochemistry, California Institute of Technology; Dr. Joseph Kaplan, head of department of meteorology, UCLA; Dr. L. Reed Brantley, head of department of chemistry, Occidental College; Dr. John W. Poole, head of department of science and mathematics, John Muir College, Pasadena.

At the Air Pollution Conference called by Gov. Goodwin J. Knight and held in Los Angeles, October 24, 1953, a special technical committee was appointed to "review the extent and effectiveness of the existing research and controls" relating to air pollution in Los Angeles County. The committee herewith respectfully submits its report.

I. THE AIR POLLUTION PROBLEM

Air pollution is not new and it not unique to Los Angeles. It is a problem, of varying seriousness, wherever people congregate. Acute air pollution sometimes is attributable to specific industrial sources but the major problem is general air pollution of urban areas. As the concentration of population increases, air pollution becomes more serious because of increased contributions by individuals, with their automobiles, rubbish burning, etc., and because of contrivations which result from the expansion of industrial and other establishments needed to provide the goods and services for the growing community.

No urban area is free from the threat of harmful air pollution. Last year's "killer smog" in London, to which some 4,000 deaths were attributed, and the recent New York smog emphasize this fact. In cities where notable improvement has been made in reduction of soot and noxious fumes originating from the use of soft coal, as Pittsburgh and St. Louis, abatement was a relatively simple matter. It is worth noting that even on the worst smog¹ days in Los Angeles the concentrations of soot, fly-ash, and sulfur dioxide are well below acceptable limits for these cities. Air pollution control methods, which have been effective there, are inapplicable or inadequate here. Los Angeles smog derives from many sources. There will be no simple cure.

Meteorological conditions generally are more favorable for the dispersal of air pollutants in other communities than in Los Angeles. Frequent low-level atmospheric temperature inversions, low wind velocities and the infrequency of rains aggravate the local problem. There is little likelihood that smog abatement can be achieved through modification of meteorological conditions because of the tremendous magnitude of energy involved in modifying or eliminating inversion or increasing air movement on an adequate scale during periods of stagnation.

II. THE NATURE OF LOS ANGELES SMOG

The outstanding characteristics of Los Angeles smog are the haze, which results in marked decrease in visibility, and the presence of substances which can cause pronounced eye irritation.

Haze is caused by finely divided solids or liquids (aerosols) in the air. Aerosols arise from the emission of dusts, smoke, and fumes in many industries, from open-air burning of rubbish, the improper functioning of incinerators, incomplete combustion of fuel oils in boiler plants and heating systems, from the operation of diesel and automobile engines, and other sources.

¹ The word "smog," a contraction of smoke and fog, is used reluctantly in this report and only because of its popular acceptance and widespread usage. The term is inappropriate for Los Angeles air pollution, as "smog" occurs here in the absence of smoke and fog. Indiscriminate use of the term is unfortunate because of the implied similarity in air pollution of all areas and because of the misleading tendency to ascribe to Los Angeles air pollution certain properties, health hazards, etc., which pertain only to air pollution in which the combustion of coal is an essential factor.

An outstanding result of research carried on by the Los Angeles Air Pollution Control District is the discovery that eye irritation is due mainly to certain oxidation products of hydrocarbons. Hydrocarbons enter the atmosphere from many sources, such as auto exhausts and losses in the storage, refining and handling of petroleum products. In the photooxidation of gaseous hydrocarbons aerosols may be formed which contribute to haze and which also appear to enhance eye irritation.

Smog can seriously damage certain crops, although actual damage appears to be minor in comparison with other economic losses associated with smog.

III. THE LOS ANGELES COUNTY AIR POLLUTION CONTROL DISTRICT

Soon after the passage of assembly bill No. 1 on June 10, 1947, which added chapter 2 to division 20 of the Health and Safety Code, the Los Angeles County Air Pollution Control District was formed. There are currently 117 employees and the annual budget is approximately \$700,000.

The district has promulgated some 130 rules and regulations, of which rules 54 and 56 are of particular interest to this committee.

As of October 31, 1953, the district's inspectors had visited 12,129 plants, made a total of 104,324 inspections and issued 18,020 written notices. There were 18,818 accomplishments (i. e. abatements, dismissals, improvements). The total field time involved in inspections was 140,863 man-hours and 5,288 hearings were held.

The code provides a three-member hearing board authorized to grant variances. As of October 31, 1953, 818 cases have been filed with the hearing board, 1,614 hearings have been held and 552 variances have been granted.

The district has filed 443 cases in the Superior Court for violation of regulations; 428 cases have been completed.

The code provides for the issuance of permits for industrial construction where the discharge of air contamination is involved. As of October 31, 1953, 10,323 applications have been filed (of which 734 were withdrawn), 9,075 permits have been issued and 877 permits denied. The value of the basic equipment is in excess of \$120 million and the value of control equipment is approximately \$18 million.

IV. REDUCTION IN DUST, SMOKE, AND FUMES

Chapter 2 division 20 of the Health and Safety Code established two general prohibitions related to air pollution, one being concerned with the blackness or opacity of smoke and the other with the general nuisance aspect. The district has added certain specific regulations. Rule 54 specifies the maximum permissible discharge of dust and fumes for any process. Despite some initial opposition by industry, rule 54 appears to be quite satisfactory.

Smoke, dust, and fumes have been effectively controlled from most industrial sources. These sources include 2 large steel mills and 209 foundries, as well as the ceramics and cement industries. Objectionable smoke and fumes from roofing plants and auto burning have been partially abated; burning at public dumps has been entirely eliminated. Progress has been made in controlling smoke and obnoxious fumes resulting from incomplete combustion of fuel oils in industrial plants and from diesel engines in trucks and locomotives.

This committee is of the opinion that the enforcement activities of the district with respect to the control of industrial emissions of smoke, dust, and fumes have been effective and that these materials do not, at this time, contribute seriously to Los Angeles smog. Vigilance and rigorous enforcement of the regulations must be continued, however.

V. REDUCTION OF GASEOUS POLLUTION

Sulfur dioxide

Most communities affected by air pollution sulfur dioxide has been a significant pollutant. Because of the activities of the district and the cooperation of industry the sulfur dioxide content of the air in Los Angeles County has been reduced below the 1940 level. Sulfur dioxide is not now a major

Hydrocarbons

In 1950 the district recognized the importance of hydrocarbons in air pollution. In the petroleum industry hydrocarbons escape to the atmosphere

from storage tanks, emergency releases, leakage of pumps, evaporation from open separators, losses in the transfer of volatile hydrocarbons, etc. Rule 56 requires that tanks of more than 40,000 gallons capacity used for the storage of gasoline or other volatile petroleum products be equipped with floating roofs, vapor-recovery systems, or other approved means for reducing the discharge of hydrocarbons to the atmosphere. A rigid time schedule has been set, with the total program to be completed in 2 years. There is every indication that this building program will be completed within the time limit, except for tanks owned and operated by the United States Government. Small tanks not included in the present ruling are being connected with vapor-recovery systems at many refineries. Improved separators, emergency releases, etc., are at present under construction. Means for eliminating hydrocarbon losses in gasoline distribution are not now in use.

The committee has visited most of the major refineries within the past 2 weeks. Without exception, a cooperative attitude was shown. Many of the recommendations of the district have already been carried out, and construction is in progress on other changes designed to reduce air pollution. Within the refineries it appears that many sources for escape of volatile hydrocarbons have been or are in the process of being controlled. Further improvements can be achieved, as outlined later in this report, and the petroleum industry seems willing to cooperate in effecting these improvements after the necessary research and engineering have been carried out. For several years the Western Oil and Gas Association has supported a research program related to air pollution, and is currently carrying on a study of emissions from oilfields in cooperation with the district.

VI. RESEARCH ACCOMPLISHMENTS

Soon after the establishment of the Los Angeles County Air Pollution Control District it became apparent that control measures used in other cities would be inadequate here. A research program was undertaken to determine the chemical identity of the substances causing eye irritation and other smog characteristics. With the aid of consultants this phase of the research program has been outstandingly successful; the importance of hydrocarbons in smog formation was demonstrated for the first time. It was established, for example, that hydrocarbons and their oxidation products form eye-irritating and haze-producing substances in sunlight and under the action of nitrogen oxides. In this reaction ozone and aerosols are formed. Also, it was shown that the photo-oxidation products were responsible for crop damage during smog periods. It is the opinion of this committee that the research which disclosed the significant role played by hydrocarbons in the production of smog constitutes one of the most important advances in the study of air pollution.

Analytical procedures and instruments have been developed to detect and measure the various components in polluted air. These procedures and instruments are essential not only for research but also for the testing and monitoring involved in the enforcement of air-pollution regulations.

Meteorological studies have been carried out to map air currents and provide information useful in locating sources of pollution and in studies of industrial zoning.

RECOMMENDATIONS

None familiar with the history of research and enforcement of abatement regulations in the Los Angeles area can fail to recognize the very real progress which has been made toward solving the problem. Yet even more impressive than past accomplishment is the monumental task which remains to be done.

It is now evident that the problem of smog control is vastly more complicated than was appreciated initially. The fact must be faced that clearing the air in this area is a tremendous task, one which many will doubtless find appallingly expensive. This committee would be gravely remiss if it failed to point out that the community must either assume the real hardships imposed by abatement costs or accept those imposed by the continuing and increasing smog nuisance.

On the assumption that our citizenry desires to clean the atmosphere and is prepared to pay the bill, two sets of recommendations are submitted. The first is concerned with the broad aspects of the problem and the long-term view; the second considerably more specific, dealing with enforcement policies which need not wait upon further research for their justification.

A. Reorganization and expansion of the district

In the present emergency the board of supervisors should consider the need for increased activities by the district and should take necessary steps to secure additional competent personnel and see that there are no administrative delays while these men are performing their tasks. To assist the director in his many tasks, extra efforts should be made to acquire full-time assistance of topflight scientists and engineers from government, industrial, and educational institutions. The district is charged with the responsibility of controlling air pollution in an area covering 4,083 square miles, with approximately ten to twelve thousand industries of various kinds and 4 million people. The size of this undertaking refutes any criticism as to excessive size of the organization. On the contrary, this committee recognizes the district's pressing need for more and better personnel, and a determined effort should be made to expand the organization with men of proven technical ability. This expansion is also needed to take care of the increased burden on the district caused by the rapidly expanding population and industrial expansion. An additional factor in the increased activities of the district is the fact that after several years of active control work, construction of smog abatement equipment is being accelerated, and the number of permits requiring engineering studies has shown a steep rise. Without a considerable expansion of the engineering division, delays will be inevitable, and the committee fully supports the district's request for additional personnel in the engineering division. The section dealing with the emissions from 6 large refineries and 19 smaller ones, plus contributions from the extensive oilfields in this area, consists of 4 engineers and 3 engineering aids. In view of the importance of the emissions from the petroleum industry to air pollution, and the size and complexity of the problem, a material expansion of this section is imperative.

The committee agrees with the district's position that the control of pollutants is the responsibility solely of those who produce them.

The district should not assume responsibility for the development and design of industrial control devices; its province is testing and determining the tentative acceptability of equipment developed by others.

It is suggested that a separate testing group be established for the study of means for controlling emission from automobiles.

Inspection division.—This division is charged with the responsibility of policing the entire area of Los Angeles County. Due to the shortage of personnel and the assignment of additional duties, such as engineering final inspections to this division, the service to many areas has suffered.

It is suggested that the technique of spotting violators be reevaluated. Nearly 75 percent of the time of the inspectors is taken up by checking on local complaints, originating from open rubbish burning and improper use of incinerators. Unless this situation is changed, it is recommended that this important function be materially expanded during this emergency period.

The research section.—As it is impossible for the district to have the diversity of talent required to handle all research necessary to the smog program, we support the policy of the control director to have certain phases of the necessary research carried out at other institutions by contract. A competent research leader should be secured, able to supervise the work at the district laboratory, and able to keep close contact with technical consultants and with outside projects, in order that they form an integral part of the air pollution research program.

Public relations.—The committee feels that the public relations activities have been inadequate. Because public support and cooperation are essential to the successful solution of the air-pollution problem, a greatly expanded and accelerated program of education and information is needed. A separate properly staffed department should be set up which has the task to inform the public and its representatives.

Director's advisory board.—The committee recommends the appointment of an advisory board to assist the director in his executive duties. This board would establish broad policies, consider the merits of proposed research programs, assist on problems of personnel and organization, and advise the director on other matter arising from the air-pollution emergency. It is hoped that able members of industrial, commercial and educational institutions can be induced to perform this civic duty.

To assist in selection of members of the advisory board it is suggested that the chairman of the board of supervisors consult with administrative leaders in the community, such as the heads of the major universities.

B. Motor vehicles

There is little doubt that automotive exhausts emit essentially the same kinds of the irritating substances as those which originate in the production and distribution of gasoline. Moreover, there has been a steady increase in the emissions from automobiles within the growing community, a trend which will continue. The development and enforcement of effective steps to control pollution from automotive exhausts appear to be among the most serious problems of the air-pollution control program.

Unremitting efforts should be made to secure aid from industry through improvements in engine design, better fuels, and development of corrective devices for existing motor vehicles. The long-needed rapid transit system for Los Angeles should be implemented.

C. Industrial problems

Under this heading come a variety of problems, on some of which, such as emissions of particulate matter, satisfactory progress appears to have been made. Continued vigilance is necessary.

Although sulfur dioxide appears not to present an acute problem at this time, in view of industrial expansion reduction of sulfur dioxide to the economic minimum and studies of the permissible sulfur content of fuel oil and gasoline should be continued.

The major industrial problems are related to the petroleum industry. Many improvements have already been made or are in process of being made. It must be recognized that the attainment of additional improvements will become increasingly difficult. There are innumerable sources for the escape of hydrocarbons to the atmosphere. Even though most of them contribute only slightly, the cumulative total can be and probably is substantial. The mere evaluation of the total losses from such sources is a prohibitive task and the problem of correction and elimination is even more difficult. The complete cooperation of the industry will be needed to reduce air pollution to an acceptable level. Failure to accomplish this objective will lead inevitably to curtailment of industry or the imposition of onerous restrictions upon operations.

Zoning of industry is a matter of greatest urgency from the standpoint of air pollution. For the proper solution of this difficult problem extensive meteorological data not yet available are needed. It is suggested that the district procure the services of a vigorous and imaginative chief for its meteorological section. Full cooperation of all planning commissions within the county will be needed and their efforts must be coordinated if satisfactory zoning is to be achieved.

Cooperative action should not be limited to communities within the Los Angeles County but should extend to neighboring areas. Adjoining counties should be urged to establish air pollution control districts without delay.

D. Medical research

In the present emergency, smog abatement is the all-important goal; with the elimination of air pollution, associated health hazards automatically vanish. Consequently no medical research projects have been considered in this report.

It seems advisable at this time to use all funds and manpower available to the district in an all-out effort to get rid of smog and not to divert them into channels which, however interesting, will not assist in reducing air pollution.

E. Specific enforcement recommendations

The committee recommends that the following measures be put into effect in the shortest time possible. Definite dates for conformance should be established promptly by the district.

1. All open settling ponds, separators, sumps, and sewers associated with the production and refining of petroleum shall be prohibited.
2. Gasoline transfers involving mobile carriers shall be prohibited unless satisfactory measures are provided for preventing escape of vapors to the atmosphere.
3. The prevention of spillage and loss of volatile hydrocarbons at filling stations shall receive immediate attention, to the end that suitable equipment and procedures for controlling this source of air pollution are put into use at an early date.
4. The feasibility of reducing or relocating existing facilities and curtailing future expansion of air-polluting industries, such as petroleum refining, shall be actively investigated.

5. Enforceable regulations for the control of obviously offensive fumes from automotive exhausts shall be immediately established and enforced.

6. Large motor vehicles, particularly buses and trucks, shall be required to use liquified petroleum gas or equally satisfactory means for abating noxious exhaust fumes as rapidly as possible.

7. Systems for the collection and disposal of all combustible rubbish shall be established promptly and local burning shall thereafter be prohibited.

Mr. KENNEDY. Thank you very much, Senator Goldwater.

Senator GOLDWATER. Mr. Kennedy, we appreciate very much your coming here. As you know, I come from your neighboring State, and as you know, we furnish you with most of the water that you use. I am very well acquainted with your problem. I remember Los Angeles when it had clean, clear air. That has been only, perhaps, 25 years ago, when you could see from mountain to mountain, and across the cities with no trouble.

I know that today your problem is being handled very intelligently, that you have made progress on it, but there is still a lot of work to do. This may come as a surprise to you. In Phoenix, Ariz., we are beginning to have a smog problem. Fifteen years ago, before the war, we had no problem. We have that temperature inversion such as you have in the valleys of California. We have them in the valleys of Arizona.

We now have over 500 small factories in Phoenix, where 15 years ago, we didn't have any. But we have found, or at least I have found through flying, that much of our trouble comes from the big smelters 165 air miles from Phoenix.

A big smelter there puts out a long plume of smoke that comes over into our valleys in the daytime and the inversion holds it in at night, and it will build up. We have a committee in Phoenix now to study this problem, and I am trying to talk the mayor into going flying some day to see this.

From an altitude of 35,000 to 40,000 feet, you can see the clear air on the other side of Morency, and this long plume of white smoke out of the smelter chimneys coming over into the valleys. So even the relatively clean air of Arizona is now becoming polluted. We are taking a lesson from California.

We are trying to do something about it early. I am happy to hear your favorable comments on the Capehart-Kuchel amendment, because I think it will enable cities that cannot afford, at the present time, to get into the problem, a manner of solving their air-pollution problems. I want to thank you very much on behalf of the committee for coming here today and giving us of your time.

Mr. KENNEDY. Thank you, Senator. I did clip from the Los Angeles Times of Sunday, April 10, a story that the city of Phoenix had appointed an air-pollution committee, and read about the leadership that you are furnishing in Arizona in the smog problem, and I would like, while I am here, to make the offer to you and to Phoenix and to Arizona that if any of the scientific results from the \$2 million that we have spent in Los Angeles County would be helpful to Phoenix and to Arizona, that it would be available to you, if your committee desires to inspect our records and expenditures. I understand there is a possibility that the Phoenix committee may come out to Los Angeles to get a firsthand look at our operation there.

Senator GOLDWATER. I am sure they will, because one of the members of the committee is a Mr. Gerwitz of the Weather Service who is the father of this inversion theory of air pollution. He had made a great study of it. Thank you very much.

The CHAIRMAN. I think we are going to have to recess until 2 o'clock. I can see that we are not going to be able to get finished with you other gentlemen. We apologize to you people for not being able to start at 10 this morning, but as you possibly know, we have a little trouble here in Washington, a little housing trouble. We had to have an executive session this morning and get going on the matter. So, we were delayed. We apologize to you for it. But, we will, if there is no objection, recess until 2 o'clock after we hear Mayor LaCorte of Elizabeth, N. J. He has to catch a train.

STATEMENT OF NICHOLAS S. LaCORTE, MAYOR, CITY OF ELIZABETH, N. J.

Mayor LaCORTE. Thank you, Mr. Chairman. At the outset, may I mention a few historical and geographical facts as they relate to the city of Elizabeth.

New Jersey ranks sixth as an industrial State, and is listed No. 1 in the chemical industries. And, Elizabeth, the sixth largest city in the State with an estimate population of 115,000, is surrounded by many of these industries. Adjacent to us on the north is a residential and industrial area; to the east is Staten Island, and facing us are heavy industries; to the south for a distance of 10 miles is a heavily populated industrial area somewhat diversified, but is predominantly chemical processing, and to the west, within half a mile of a residential neighborhood, is an industrial site planned and in operation by an adjacent community. In addition, in Eastern Union County, which comprises about three-fourths of the county, there are approximately 800 manufacturing industries.

Being situated as we are, naturally there must be consequences arising from the contaminants and pollutants in the atmosphere, and in connection with this, I would like to list 3 categories that have been acutely affected on 5 or 6 occasions during the past 2½ years:

1. Individuals.
2. Industrial employees.
3. Paint discoloration on homes.

On these occasions the effects have ranged from discomfort, objectionable and obnoxious odors, and potential health hazards, causing irritation of eyes, nose, and throat, choking and nausea.

Industrial employees in sister industries have been affected so severely that they left their jobs, and in one incident several departments in 2 or 3 plants closed down for the greater part of an 8-hour shift, totaling about 2,000 employees.

Discoloration of freshly painted structures occurred, and still continuing to — considerable deterioration. These events cost thousands of dollars to the homeowner.

In
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slu

In proximity to several heavy
industries developing into a
new 116-unit housing

development that is definitely affected by these occurring and reoccurring smog episodes.

The CHAIRMAN. In other words, it is your best judgment of this 116-unit housing project if this smog and smoke continues that within a short period of time it will be a blighted area?

Mayor LACORTE. There is no doubt about it. Here we create public housing and under such conditions we are having blighted areas 3 or 4 years from now.

The CHAIRMAN. In other words, it will be an endless chain if we do not eliminate the smog and smoke?

Mayor LACORTE. You are defeating your purposes, that is correct.

This is evidenced by the rapid turnover of tenants, and is corroborated by not only verbal statements but by signed petitions.

In the analysis of the aforementioned, it is not in the province of the local public health administration to impede industrial development, but we should be interested in the future implications re the city as a whole and sister industries. In reference to the future potentials, three basic fundamentals relating to industries should be recognized:

1. In plant sanitation and hygiene.
2. Air contamination.
3. Industrial waste disposal.

In summarizing, may I quote from a 2-day institute on air pollution held recently in our State?

Air pollution today is an unsolved complex, and is an engineering problem of great magnitude, while certain well-conceived legislation may be necessary to accomplish satisfactory air pollution control, air pollution cannot be legislated out of existence. It is a problem which can be solved only through education, engineering, and equipment.

The present housing bill, S. 2938, has as one of its objectives, the elimination of slum, or "blighted" areas, so that the proposed amendment on air pollution is consistent with the aims of S. 2938, in that it will have a vital effect on one of the major causes of slum conditions.

In conclusion, I strongly recommend the passage of this amendment to the Housing Act of 1954, because from my experience it is more advantageous to explore and apply a prevention program than regulate the results and effects.

Dr. Laubach is our health officer. He will answer any questions you may have on that subject.

The CHAIRMAN. I think we all recognize the importance to health of eliminating smoke. I am so sold on it, that I want to see the Federal Government get into it and then I want to see every city and community in the United States pass laws and rules and regulations to get the job done.

One of the things we need so badly is a clean country.

Mayor LACORTE. There is no doubt about it.

The CHAIRMAN. It is the best way to eliminate blighted areas and slums. Just why we would spend billions and billions of dollars for public housing and all kinds of projects and then just pour this smoke and smog down on them and ruin them, I don't understand.

Thank you very much, Mayor.

We will stand in recess now until 2:15. We will meet right in this room.

Without objection that statement of Mr. Laubach will be in the record.

(The statement referred to follows:)

STATEMENT OF GEORGE C. LAUBACH, HEALTH OFFICER, ELIZABETH, N. J.

There are several official groups and private citizens in Elizabeth, interested in this problem and are cooperating and coordinating their efforts. One of these is the Air Pollution Committee appointed by our city council, of which I am a member. Through the deliberations of this committee two definite proposals have been put into effect.

1. Before any permits are issued by a city department, for the construction of a manufacturing concern or an industry in the city; the applications, blueprints, plans and other pertinent information be referred to the board of health for their perusal and recommendations.

2. In cooperation with the State department of health, permanent air sampling stations are being set up in Elizabeth and southward in the critical areas, along the waterfront.

In discussing these two proposals, first, No. 1: This immediately poses a problem, the expenditure of money for the protective or controlling devices may well be prohibitive, and the industry may withdraw their application and move elsewhere, and No. 2: Even though we might be able to pinpoint sources of pollution, from the sampling stations, we are told that additional research is needed rather than law enforcing at the present time, as there are no standard techniques available and we are lacking sufficient data to determine specific air contaminants.

There have been attempts to legislate in the past, not only in our State but in several others and as Mayor LaCorte has indicated, it is an engineering problem of great magnitude. Now this again poses another problem: "What can be done to alleviate the acute situations such as we have experienced in Elizabeth?"

Therefore, it is my firm conviction, that this amendment we are discussing today, if enacted into law, will be a tremendous help to us in carrying out our proposals, and in preventing acute and serious smog episodes, because we could approach industry with not only a directive in one hand but with an olive branch in the other.

In closing I should like to raise one question:

Will this amendment take into consideration the expenditure of money for necessary equipment, for the disposal of liquidation industrial wastes, because we know that in many instances this contains toxic material and it cannot be disposed of through the average sanitary sewerage system?

(Whereupon, at 12: 15 p. m., the committee recessed, to reconvene at 2: 15 p. m., the same day.)

AFTERNOON SESSION

(The committee reconvened at 2 p. m., Senator Goldwater presiding.)

Senator GOLDWATER. The committee will come to order.

The next witness will be the Honorable Warren Billings, councilman from South Pasadena, Calif. I want to welcome you here, Mr. Billings. We look forward to your testimony.

**STATEMENT OF WARREN BILLINGS, COUNCILMAN,
SOUTH PASADENA, CALIF.**

Mr. BILLINGS. Mr. Chairman, I am appearing in the capacity of chairman of the smog control committee of the Los Angeles County Division of the League of California Cities. Without wishing to duplicate any of the testimony that has been presented by Mayor Poulson of Los Angeles or Mr. Harold Kennedy, I would like to emphasize this one point in general.

I believe that the most important factor in the air pollution problem, certainly the one thing that has deterred progress more than anything else, is the terrific complexity of the problem. It has been brought out previously but as I say, I want to emphasize that one fact, that a condition locally in one area may have very little in common with a similar result in another area. I know that that has been the greatest stumbling block in the progress that we have made in Los Angeles County.

I have a prepared statement that I respectfully request be placed in the record, and with your permission I would like to quote briefly from that.

Senator GOLDWATER. That statement will be received and be made a part of the record at the conclusion of your remarks, and you may testify as you see fit.

Mr. BILLINGS. I am using the city of South Pasadena, my own city, as an example of the potential economic impact of air pollution on urban redevelopment. I wish to point out that we have probably an outstanding example of what can happen. Located between Pasadena and Los Angeles, South Pasadena has long enjoyed the reputation of being an exceptionally clean, homey little city that was very desirable to live in. We have some light precision manufacturing, some excellent apartment areas, but we are predominantly a single-family residential city.

We have no heavy industry whatever. As we are only 10 minutes away from downtown Los Angeles by freeway, property has always been in demand. At the present time our local urban redevelopment agency is in the process of redeveloping an area of some 480 acres of potentially choice residential property.

This project will offer the last opportunity for such desirable acreage that is located so close to downtown Los Angeles. There is only one thing that could ultimately affect this project adversely—air pollution.

I have, Senator Goldwater, a map prepared indicating this particular urban redevelopment. The portion indicated inside of the red line includes all of this so-called blighted area which was the result of a poor development back in the 1880's where they ran this rectangular development up the face of a cliff. Surrounding it is good residential property in Pasadena. Here are the Los Angeles City limits, north in this direction. Now, if you will recall the map that Mayor Poulson exhibited this morning indicating the wind velocities and the directions, you will recall that the wind carrying the smog created elsewhere comes in this direction and sweeps directly through this area.

The area indicated in this redevelopment might be described as a horseshoe of hills, so that we have a large valley in here which is open on the bottom end so that it offers a natural draw for the air pollution clouds to pour in.

I have also 3 photographs that I personally took last fall during 1 of the exceptional days when you could go up on top of this hill area where the air was clear and you could see the approaching smog clouds. I would like to have you examine those. There is one indicating the typical type of incinerate or smog, which is the first one you see, that has rolled up against the foothills. The other two look

south toward Los Angeles and the harbor area, indicating the bank of smog rolling in.

You can see the tops of the hills in the distance sticking up like little islands in that sea of smog. On that particular day the inversion ceiling was around 500 feet, which made an excellent opportunity of taking those pictures.

The problem that confronts South Pasadena is this: With a potential \$12 million development that has everything in the world in its favor, that one question mark ahead of it, air pollution, we see a very, very difficult problem ahead of us. It is our desire to approach this from the standpoint of buying out the property involved. We are already in that process. There will be a considerable amount of condemnation proceedings required. Then we wish to sell this acreage back to a private dealer and he would then proceed under the plan set up by the development agency and produce this very, very beautiful development.

However, when we see what goes on with air pollution, if we are even to disregard for the time being the actual material damage that can be sustained by the property in its path, the mere fact of the nuisance value of air pollution is a very strong deterrent toward anyone's buying property in this area. The result is that at this time we are not at all sure that we are going to be able to interest the proper parties in coming in there and taking over this large project. Where we are talking in the neighborhood of 600 or 650 very fine home sites, we are very, very definitely and earnestly interested in doing anything that will help alleviate the smog problem. I wish to emphasize as strongly as possible that while we are speaking of it as a local problem, we know this thing exists in many other communities throughout the State and throughout the Nation.

In closing, Senator, I would like to let you in on a little secret, too. Speaking of flying, I have unfortunately seen some of our good rich California smog rolling clear across the California-Arizona line, and I am afraid that some of yours has been a little bit mixed up with some of ours.

Senator GOLDWATER. We try to keep it out. We let it go as far as Blythe and then we stop it.

Mr. BILLINGS. I wish we could do the same.

Senator GOLDWATER. Thank you very much for coming here today. I know what your problem is over there. I have watched it develop all my life. I think it is even moving out into the San Fernando Valley now.

Mr. BILLINGS. That is true, it is.

Senator GOLDWATER. Isn't it true that people are now building homes in the Victorville area to get away from that smog?

Mr. BILLINGS. That is right, and the amazing thing is that they do not get away from it in Victorville. I have a ranch located considerably farther out in the desert and many times I have seen the pressure so great and the concentration so heavy on air pollution sweeping up through the pass that it just literally oozes out and spreads out over the desert as far down as Victorville.

Senator GOLDWATER. That cement plant doesn't help it any. You people can always move over to Arizona. We have a lot of free area over there. Bring along some of that water and we will talk to you.

Thank you very much.

(Mr. Billings prepared statement follows:)

STATEMENT OF WARREN BILLINGS, COUNCILMAN, SOUTH PASADENA, CALIF.

Air pollution is without question the most important problem confronting the 45 cities of Los Angeles County. Our people have watched the insidious growth of this menace despite all efforts towards control and eradication. They have been patient and long suffering as they breathed foul air during the many days of heavy air pollution. Patience, however, can only exist where there is hope. Once the feeling of hopelessness begins to spread among our people, our very economy becomes threatened. The State of California has provided its citizens with a fine law for the control of air pollution. What is needed now is assistance for industry in its efforts to comply. Air pollution control devices are extremely costly due to the extensive engineering required for each individual installation—and of course they are not productive financially. Many people are prone to believe that air pollution is caused solely by large industrial establishments. This of course is not true. There are many small concerns that find themselves faced with huge expenditures for control equipment. They have the choice of complying or closing up. Industry needs both encouragement and assistance in its battle against air pollution.

I referred previously to the fact that air pollution threatens our overall economy. My own city of South Pasadena is an interesting example. Located between Pasadena and Los Angeles, South Pasadena has long enjoyed the reputation of being an exceptionally clean, homey little city that was very desirable to live in. We have some light-precision manufacturing, some excellent apartment areas, but we are predominantly a single-family residential city. We have no heavy industry whatever. As we are only 10 minutes away from downtown Los Angeles by freeway, property has always been in demand. At the present time our local urban redevelopment agency is in the process of redeveloping an area of some 480 acres of potentially choice residential property. This project will offer the last opportunity for such desirable acreage that is located so close to downtown Los Angeles. There is only one thing that could ultimately affect this project adversely—air pollution.

South Pasadena lies directly in the path of advance of the blanket of polluted air, or smog as we call it, as it creeps daily toward the mountains. Those who have not lived in such contaminated areas cannot conceive of the curse of air pollution. To be denied the right to breath fresh air seems far-fetched and yet that is the lot of millions of Americans today. How can we expect to rehabilitate blighted areas on one hand when on the other we permit blight to grow? Air pollution recognizes no difference in valuation, it depreciates the multimillion dollar development in the same ratio as the three room cottage. We cannot afford to leave any stone unturned in our efforts to eradicate this modern menace to public welfare—air pollution.

Senator GOLDWATER. That concludes the list of witnesses for today. The committee will recess until 10 o'clock tomorrow morning, at which time the first witness will be Professor Charnbury from the Pennsylvania State University.

(Whereupon, at 3 p. m., the committee recessed to reconvene at 10 a. m., Thursday, April 15, 1954.)

HOUSING ACT OF 1954

Air Pollution Prevention Amendment

THURSDAY, APRIL 15, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Payne, and Maybank.

The CHAIRMAN. The committee will come to order.

Suppose Mr. Charmbury, Mr. Coleman, Mr. Rothrock, Mr. Roth, Mr. Meeser, and Mr. Kowalshyn all come up and sit around this table. You are all from Pennsylvania, and you all have the same problem.

Professor Charmbury, I believe you are going to do most of the talking. We are delighted to receive you gentlemen and delighted to have you here. Do you have a prepared statement?

STATEMENT OF H. B. CHARMBURY, PENNSYLVANIA STATE UNIVERSITY, STATE COLLEGE, PA.

Mr. CHARMBURY. Yes, sir.

The CHAIRMAN. Do you prefer to read it or would you like to have it placed in the record and talk from it?

Mr. CHARMBURY. I prefer to discuss it.

The CHAIRMAN. And then it will be placed in the record, if you wish. Do you have any other exhibits or any other prepared statements? If so, we will be delighted to place those in the record.

Mr. CHARMBURY. I have some papers here that I would like to submit to the committee.

The CHAIRMAN. Why don't you proceed in your own way and we will see if we can't learn something about this subject?

Mr. CHARMBURY. Senator Capehart, I am chief of the division of mineral preparation and engineering in the College of Mineral Industries at the Pennsylvania State University.

I have been engaged in the various technical phases of smoke and dust prevention and air pollution during the past 9 years, both as a member of the faculty of Pennsylvania State, and as a part-time consultant.

I want to state that I have thoroughly examined yours and Senator Kuchel's smoke abatement and air pollution amendment to the ad-

ministration's Housing Act of 1954. I strongly recommend that it be approved by your committee.

In spite of the fact that science and industry have made great advances during recent years, the air pollution problem still exists in many industrial areas. As a result, the property and, in some cases, the health of the people of the United States in these areas has suffered. Air pollution is not a local problem, as contaminants are carried over city, county, and State boundaries. I feel, therefore, that the Government should make every effort possible to help the people in the conservation of their health and property by aiding industry in the prevention of air pollution.

Yours and Senator Kuchel's amendment to the Housing Act will do just that. I am quite familiar with an air pollution problem in one of the industrial areas in northern Pennsylvania. This problem will serve as an example as to how this amendment will aid the people, the local government, and industry. The primary industry in this particular area is concerned with the manufacture of cement, a process in which practically each step is a dust-forming operation.

From the crushing of the original minerals to the packaging of the final product, there is dust formation in about every operation. Some time ago, a survey was made in 1 of the communities in this area in which there are 4 cement plants in the immediate vicinity to determine the amount of dustfall. The results indicated that over 4,000 tons of dust fell in every square mile of this community in a year's time.

The CHAIRMAN. Four thousand tons?

Mr. CHARMBURY. Over 4,000 tons. I might point out that the average for Pittsburgh last year was around 600 or 700 tons per square mile. That is in Pittsburgh. The people in this community didn't need a dust survey to tell them they had an air pollution problem. They realized that by the time and effort and expense involved in sweeping up the dust, in scrubbing their porches, and in painting and repainting their houses.

The people of the community then applied pressure on their local council to enact air pollution legislation which would force the cement companies to provide adequate dust collection facilities.

Counsel brought suit against several of the companies and some changes were made, but not to everyone's satisfaction. Counsel then employed me as a consultant to investigate the efforts that were actually being made by the companies to aid in the dust collection problem. I made the survey, reported the results, and made certain recommendations.

I would like to submit a copy of that report for the record, along with some other matters.

The CHAIRMAN. Without objection, it will be made a part of the record.

(The report and material referred to follow :)

Cement dust which fell in the borough of Nazareth from Dec. 7, 1946 (10 a. m.), to Dec. 9, 1946 (10 a. m.)

[Total of 48 hours. Samples were taken from 3 different sites.]

	Pounds per 100 square feet	Pounds per acre	Total pounds for entire Nazareth borough (1,076 acres)	Total in tons
Site No. 1—Nazareth Tool & Supply Co.....	1.5	684	734,000	362.0
Site No. 2—Broad Street Theater.....	.625	272	292,000	146.0
Site No. 3—Corner of Center and New Streets..	.81	362	379,000	189.5
Average.....	.98	436	468,333	232.5

[From the Nazareth (Pa.) Item, December 12, 1946]

CEMENT DUST SURVEY IN BOROUGH REVEALS ASTRONOMICAL FIGURES—0.98 POUNDS OF DUST DEPOSITED PER HUNDRED FEET IN 48 HOURS—232.5 TONS DEPOSITED IN TOWN EVERY 48 HOURS

Many citizens of town became very conscious of cement dust deposits throughout the borough recently, causing the necessity of sweeping the pavements 2 and 3 times daily and the homemaker busy with the dust rag within. So evident was the dust all about town that the services of the borough engineer were sought and a survey made at the direction of the complainants.

According to this survey, made the 7th day of December, last Saturday, by the borough engineer at three different locations within the borough, the following figures may provoke further interest in this time-old contention.

In the survey samples of dust were collected from the pavement in front of the Nazareth Tool & Supply Co., the Broad Street Theater and corner of Center and New Streets. The collection from the pavement of the Nazareth Tool & Supply Co. weighed 1.5 pounds per 100 feet, from the Broad Street Theater pavement 0.625 pounds per 100 feet and the corner of Center and New Streets 0.81 pounds per 100 feet, an average of 0.98 pounds per 100 feet.

Using the average figures to compute overall averages, the survey shows that the town gets an average of 436 pounds of dust per acre, or the town's 1,076 acres is sprayed with 468,333 pounds every 48 hours; 468,333 pounds of dust is equal to 232.5 tons, or more than 1,245 barrels. Using an arbitrary figure of one-half cent per pound, Nazareth gets approximately \$2,341.67 worth of dust every 48 hours, with favoring winds. Thus, with an average of approximately \$1,170.88 worth of dust every day, the housewives of Nazareth dust and sweep away approximately \$8,196.16 worth of pure gold every week, or \$426,200.32 every year. This figure appropriated to at least three rightful owners and producers of the dust product would net each plant \$142,066.77 annually.

It was announced by this local survey committee that while these figures are arbitrary, they portray a mighty close picture of the truth of the cement dust nuisance. The survey committee further stated that an analysis of the dust collected at but three different locations would very likely prove of valuable cement content and also show a mixture of several brands, together with foreign matter. The specimens collected, and now being collected daily, are kept by the committee for future study and further consideration, it was announced.

To the Citizens of Nazareth:

Your town council and chief burgess are cognizant of the increased menace of cement dust to our community. We are aware of the fact that many of our citizens and businessmen are conducting their own surveys relative to the amount of cement dust inflicted on our town. The harm by cement dust has been the talk of the town. We believe this nuisance can be abated and toward this end we shall work together.

This acknowledgment is not meant to appease the enthusiasm of our citizens in this effort but rather for the purpose of informing the people of Nazareth that we share in their opinion and invite their full cooperation.

WALTER L. PETERS, *Chief Burgess.*

Mr. CHARMBURY. I found that the companies, in most cases, were cooperative and willing to do whatever they could within their financial means. The collection of dust is an expensive operation. It requires expensive equipment, and in most cases, it represents a high operating cost.

Naturally, the companies returned the collected dust to their process, so there is some return on the operation. As a result of the survey, and as a result of the continued pressure by the people of the community, the companies have made some additional improvements, but still more improvements are physically possible. At the present time, another survey is being conducted to determine once again the amount of dust fall in the same community, to see what improvements have been made, and to determine the extent of the improvements.

More recently, other communities in the same area have followed suit and are now planning to have surveys made to determine the dust fall in their communities. I mentioned previously that even more improvements are physically possible.

For example, it would be possible in most cases to place additional collectors in the process, and thereby remove an additional portion of the dust which is now being blown over the surrounding areas. But companies consider this to be too great a hardship from an economic standpoint. However, with the help that the companies could receive through this amendment, the hardship would be somewhat relieved and it may be possible that the companies would be somewhat to increase their dust-collection facilities. At least the council would be less hesitant about going ahead and enacting legislation requiring the maximum available in dust-collection equipment. I would like to point out at this time that even though these companies, or others in other industries, would have the best equipment available on the market today, the air-pollution problem would not be completely solved.

There is still much to be desired of commercial equipment, but this can only be accomplished through research. Fortunately, this amendment provides a substantial sum of money for this type of basic research. Again, I would like to emphasize that the illustration I used above to show how this amendment could help the people, local government and industry in solving air-pollution problems is only one of numerous examples that could be cited as arising in different geographical areas and involving many different industries.

Therefore, I sincerely believe that by putting into practice the provisions as outlined in this amendment, that both the citizens of industrial areas and industry, itself, will profit greatly, and the industrial areas will become a healthier and more valuable place in which to live.

That concludes my statement.

The CHAIRMAN. You feel confident the cities and local subdivisions of government will cooperate with the Federal Government if we can pass such legislation as we are talking about?

Mr. CHARMBURY. I feel that the local governments will be very happy to cooperate with the Federal Government.

(The following report was submitted for the record:)

A REPORT ON THE ATMOSPHERIC POLLUTION PROBLEM IN AND AROUND THE BOROUGH OF NORTHAMPTON, PA.

By H. B. Charnbury

SUMMARY

The dust situation in and around the borough of Northampton, Pa., has been studied. This has been done by visual observations and by examining reports of previous investigations. The observations and reports have indicated that the dust fall is exceptionally heavy and that the dust originates primarily from the cement plants in the immediate vicinity of the borough.

A survey of the dust collecting facilities in the cement plants has been conducted to determine the efforts being made by the individual companies to control their dust. The survey has revealed the number of collectors in each plant and the type of collector at the various locations in the plant flow. The author's opinions of the prevailing dust conditions in each of the four plants are presented and recommendations are given to assist the borough council, the citizens of the community, and the companies in correcting the overall dust situation.

INTRODUCTION

The borough of Northampton has a very serious dust problem. This is evident by the general appearance of the streets and houses within the borough, by an examination of the trees and other vegetation in the area surrounding the borough, and by the scientific tests conducted under the supervision of Mr. William G. Christy, consulting engineer from Jersey City, N. J. The Christy tests indicated that the deposition of dust within the borough, expressed in terms of tons of dustfall per year per square mile area, is higher than that of any other city in the country. Chemical analyses performed by the Allentown Testing Laboratory, Inc., on the dust samples collected by Christy further revealed that most of the dust was the same as that used during the manufacture of cement.

Since there are four cement plants located in and around the borough, it is quite logical to state that the dust deposited in the borough originates, for the most part, from any one or all of these plants. It should also be pointed out, however, that there are about 8 cement plants in an area of 30 square miles surrounding the borough and about 17 plants within a hundred square mile area. All of these plants may contribute, to a small extent, to the dust situation within the borough but it is safe to assume that most of the cement dust originates from the local plants.

CEMENT MANUFACTURING—A DUST-FORMING OPERATION

The manufacture of cement is a dust-forming operation and the complete elimination of dirt and dust during the manufacturing process is virtually impossible. From the time the raw materials enter the plant until the finished product leaves the plant each operation of materials handling is a dust-forming process. The screening, crushing, conveying, and blending of certain raw materials, the drying of the blend and other raw materials, the grinding of the dried materials, the clinkering of the ground materials, the cooling of the clinker, the mixing and grinding of still other raw materials with the cooled clinker, and the bagging and bulk loading of the final product are all dust-forming processes. Consequently, the control of dust requires a great deal of equipment, time, and expense.

Grinding operations in the manufacture of cement reduces the size of the particles so that about 90 to 95 percent are smaller than three-thousandths of an inch. The tendency of particles this size to get into suspension in air is great and ability of commercial dust collectors to remove particles of this size from suspension in air is small. Thus, the problem is a mean one and a very difficult one from a technical standpoint.

Of all the dust-forming operations mentioned above, the clinkering of the ground materials is the most serious and the one most likely to form dust to be carried in air and deposited in the area surrounding the plant. In this process the ground raw materials enter one end of a long rotating circular tube or kiln and pulverized coal is blown into the other end and burned to cause the high temperatures necessary for the chemical and physical reactions. The hot combustion gases with the ash from the coal and some of the raw materials then

leave the kiln and are emitted into the atmosphere through a stack. The fact that the gases are hot increases the tendency for more solid particles to be carried out of the stack and makes it more difficult to remove the solids from the gases. Generally, the gases pass through some sort of dust-collecting system located between the kiln and the stack and, in some cases, the heat is extracted from the gases prior to dust collection. The heat removed from the gases is used to preheat the air to burn the coal. The solids removed from the gases are returned to the kiln. Therefore, both operations are desirable from a technical standpoint and also from an economical standpoint when the benefits derived from the processes are greater than the expense of the processes. The extent to which the solids are removed from the gases is a function of the type of collector used; and the type of collector used is generally a function of the initial cost of the collector and the cost required to maintain and to operate it.

TYPES OF DUST COLLECTORS

There are five general types of dust collectors: dry centrifugal, dry baffle, dry fabric, wet, and electrical.

In the dry-centrifugal type, the gases are given a swirling motion causing the particles to fly to the outer edge of the container and thus be separated from the clean gases which are removed in the center. The initial cost for this type of collector as well as the maintenance and operation cost is relatively low. This type has a rather low collection efficiency, particularly with the finer sizes. Generally, except in remote plant locations, this type of collector must be followed by a secondary highly efficient collector for satisfactory dust removal.

The dry-baffle type is another low-cost collector and probably requires less maintenance than all other types. Operation costs are low. It operates on the principle that the gases impinge onto a flat surface and are forced to change direction. When the solid particles strike the flat surface they drop out of suspension. The efficiency of this type of collector may be considered as fair.

In the dry-fabric type of collector, the gases pass through a filter bag which traps the solids. This type of collector is relatively expensive and requires a great deal of maintenance. The operation cost is moderate. The collection is highly efficient but it has certain limitations. The speed with which the gases pass through the bag, the temperature of the gases, and the amount of moisture in the gases may not be too high. The use of synthetic fibers such as nylon or orlon for the bags in place of cotton or wool have made it possible to use higher temperatures.

The wet collectors use water, generally in the form of a spray, to scrub the solids from suspension. The efficiency of the various wet collectors is a function of the particular design but in general is quite high. These collectors have the advantage of being able to handle hot, high-moisture-containing gases. They are relatively high in cost and have a high operating and maintenance cost.

The electric collectors remove the solids by electrostatic precipitation. This type of collector is probably the most expensive and has the highest operating and maintenance cost. It is also the most efficient type of collector, particularly on the fine sizes. Since it is an intermittent type of collector it is necessary to shut down periodically and remove the collected dust. The temperature and the moisture content of the gases are of little concern with this type of collector.

In addition to the above types of collectors, there are settling chambers in which relatively large particles are removed from the gases due to the change in direction as they pass from the horizontal kiln into the vertical stack and to reduction in velocity. These chambers are relatively expensive and must be cleaned periodically. Their efficiencies are low. This type of collector is rapidly becoming obsolete.

PLANT DUST SURVEY

During the past several years the cement plants in and around the area have been surveyed by the individual companies to determine the efforts being made to solve the dust problem. On March 20, he visited the borough and obtained an overall picture of the situation. From the officials to obtain a collection. And on the collection facilities.

As a part of his correspondence, the author attempted to determine the number of collectors installed in each plant, a flow diagram of the plant operation showing the location of each collector, the type of collector at each location, the amount of dust obtained in each collector, and any other information regarding special efforts being made to aid in the overall problem. He also requested information regarding the number of kilns in operation and plant capacities. Most of this information was supplied by the various companies with the exception of the amount of dust recovered in each collector. Only in a few cases was this information available. Yet, this type of information is very useful in determining the extent to which an individual collector is used and is functioning. For example, if under normal operating conditions a collector recovers say 20 tons per day and then takes a serious drop to say 10 tons it indicates that the collector has been out of service or that there is faulty operation. In most cases, the collected dust is returned to the plant flow by conveyor and it could be measured without too much difficulty or expense. Further, it is generally known how much dust will be lost during a particular operation with a given plant capacity. For example, with a normal operation and a plant capacity of about 5,000 barrels per day there would be an expected loss of about 30 tons of dust per day during the drying operation and about 130 tons per day from the kilns. How much of this dust is being recovered would provide the information necessary to evaluate the collector and its operation.

Table I shows the names of the companies contacted, the names of the individuals in the companies, their position with the company, the number of dust collectors in the plant flow, and the number of kilns in operation at the plant. All of the personnel contacted were most cooperative.

TABLE 1.—General survey information

Name of company	Individual contacted	Position	Number of dust collectors	Number of kilns
Whitehall Cement Co.....	J. W. Pastorius...	Vice president....	17	6
Universal Atlas Cement Co.....	L. J. Boucher.....	Plant manager....	21	4
Coplay Cement Co.....	D. J. Uhle.....	Vice president....	12	4
Dragon Cement Co.....	W. H. Klein.....	do.....	20	3

¹/₄ after alterations are completed.

From this general information it may be seen there are a total of 69 collectors in the 4 plants.

A breakdown of the types of collectors installed in the different plants is given in table 2.

TABLE 2.—Types and numbers of dust collectors in different plants

Name of plant	Settling chambers	Dry centrifugal	Dry baffle	Dry fabric	Wet collectors	Electric collectors
Whitehall.....	-----	1	4	12	-----	-----
Universal.....	-----	1	-----	16	-----	4
Coplay.....	4	5	3	-----	-----	-----
Dragon.....	-----	7	-----	13	-----	-----

At the time of the author's inspection trip on August 6 and 7 there were quite a few of these collectors not in operation. In some cases this was due to the fact that the collectors were located in closed portions of the plant. It is to be expected that these collectors would not be operating. In other cases there were a few shut down for repairs and construction work but there were also a few that should have been in operation but were not. The author was informed that these collectors only operate during peak loads.

In general, the amount of dust that a particular plant is sending out into the atmosphere, and thus to the surrounding area, may be measured by the general appearance of the plant. If the plant is dirty and dusty it is evident that it is not doing a satisfactory job of dust collection. On the other hand,

if there is good housekeeping within the plant and about the grounds of the plant it is fairly evident that the plant does have satisfactory dust control. The arguments that "we keep our dust at home" or that "the wind blows our dust in the other direction" are poor ones. If there is dust being emitted from the stacks of any one of the plants in the immediate vicinity of the borough, a certain percentage of that dust will fall within the borough. With this in mind, the author would like to express his honest and sincere opinion of the prevailing dust situation in each of the four plants listed above at the time of his visits.

WHITEHALL PLANT

The general appearance of this plant was good. However, a few portions of the plant were dirty, particularly the coal-handling portion. There was black dust being emitted from the stack of the drier. Plans are underway to install unit coal mills which should help to correct this condition.

At the present time, three more dry-fabric-type collectors are being installed in the finishing department. The dust-laden air which will pass through these collectors now goes into the stack. The installation of these collectors will help the overall situation.

The hot gases from the six kilns at this plant pass into a common duct or settling chamber. This chamber is not even included as a dust collector even though there is dust removed in it. From the common duct the gases are drawn through 4 waste heat boilers and then through 4 dry-baffle-type collectors before passing into the main stack. There are three men on a shift removing the dust collected at the base of the waste heat boilers. These men remove a little more than 100 tons per day from the boilers alone. Plans have also been made to install dust-conveying facilities to remove the dust from the baffle collectors as fast as it is recovered.

The exhaust gases from several of the dry-fabric collectors are discharged directly into the room with the workmen. There was evidence that the collection was not complete at times. This evidence was in the form of dust splattering on the ceiling and wall in line with the exhaust. If this were cleaned it could be used as an indication of the collector performance. These collectors were operating satisfactorily at the time of the author's visit. In addition, these collectors had been inspected recently because the inspection mark and date were stamped on the collector.

There has been a dust survey made at this plant by an independent consultant in the field and the company officials are following his recommendations. This is an indication of the willingness of the company to do all that it can to aid in the dust problem.

UNIVERSAL ATLAS PLANT

The general appearance of this plant was very good at the time of the author's first visit. At the time of his second visit the general appearance was good but there were portions of the plant, particularly at the bulk loading station, that were very bad. It was the author's own personal feeling, based upon what he had seen, that the company had relaxed somewhat on its efforts to control the dust. Perhaps the company had every right to take this attitude since it is spending considerable money for dust control while some of the other companies are permitted to operate with the minimum of cost.

The dust-laden gases from the kilns at this plant pass into a settling chamber and finally through electric precipitators before passing into the stack. These collectors were doing a very good job. The author observed the collected dust being returned to the plant.

Some of the fabric-type collectors blow their exhaust into the mill. These collectors appeared to be in satisfactory condition. They operate on a 4-hour cycle. At the end of the 4-hour period they automatically shut off for a 3-minute period during which time the collected dust is removed. The fabric-type collector at the bulk loading station was not operating satisfactorily at the time of the author's second visit. This was undoubtedly responsible for the poor condition at this location.

Due to company policy, the officials at this plant were restricted somewhat in providing all of the specific data requested.

COPLAY PLANT

The general appearance of this plant was very bad. There was excessive dust and dirt in practically every section of the plant. A great deal could be done at this plant to improve the dust situation.

Most of the collectors in use at this plant are of the low efficiency type. The hot kiln gases pass through settling chambers at the bottom of the stacks. At the time of the author's second visit he did observe air preheating coils in two of the stacks. He did not observe these during his first visit. This installation represents an improvement. Also, there were covers on the equipment returning the collected dust to the plant. This operation was also an improvement. It would appear that some effort is being made at this plant to aid in the dust situation. However, when asked about future plans, there was no reply.

It was reported that a survey and test was conducted at this plant regarding the efficiency of certain collectors and that results indicated high efficiencies. The author requested copies of the test data but never received any. Official reports did indicate that the company lowered the heights of two of their stacks to minimize the amount of dust which would be carried into the borough. It is the author's opinion that this is not the proper approach for a solution to the problem. The best way to prevent the dust from getting into the borough is to prevent it from getting into the atmosphere.

DRAGON PLANT

The general appearance of this plant was poor. There was considerable dust and dirt in most parts of the plant. However, this plant is under construction at the present time and it is quite difficult to evaluate it. There is, perhaps, a tendency to let conditions deteriorate particularly in portions of the plant which will eventually be abandoned. A great deal could be done at this plant to improve the dust situation.

The hot kiln gases at this plant pass through dry centrifugal collectors into the stack. The amount of dust collected in each of the 3 collectors from each of the 3 kilns is approximately 12 tons per day or a total of about 36 tons per day. This value is relatively low and indicates that a great deal of dust is being permitted to enter the stack and thus get out into the atmosphere.

There are also 3 dry centrifugal type collectors at the discharge end of the kilns and 1 of this same type located at the coolers. The other collectors are of the dry fabric type and appeared to be satisfactory. Several of the fabric type have their gases discharge directly into the room with the workmen.

After alterations, this plant will have 7 dry centrifugal type collectors and 17 of the dry fabric type. Thus there will be 4 additional fabric type collectors; 2 in the raw-mill section of the plant and 2 in the clinker mill. Although this will help the dust situation to some degree it is questionable whether or not there will be too much improvement since there is no provision for additional collection at the stack.

RECOMMENDATIONS

In view of the atmospheric pollution problem that exists in and around the borough of Northampton and as a result of the survey made at the various cement plants in the vicinity of the same borough, the author would like to make the following recommendations:

1. That the borough council dust committee be expanded to include about 4 representatives of the citizens of the borough and a representative from each of the 4 cement plants in the vicinity of the borough. This would help to promote a better understanding of the overall problem and the limitations and extent to which the citizens, the borough council, and the companies may or could go in arriving at a solution to the problem.

2. That each company have a general housecleaning of its plant and grounds and then invite the above committee to visit its plant and observe the best dust conditions that it is possible to maintain. The committee should then arrange to visit the company at later dates to observe the extent to which each company is able to keep its plant and grounds in satisfactory condition. If the company is unable to do this then appropriate steps, legal or otherwise, should be taken to force the company to revise its dust-collecting facilities.

3. That each company assign a man whose responsibility it will be to see that the plant and grounds are kept in satisfactory condition. This man should file a report on any unsatisfactory dust operation in the plant and copies of the report

should go to the top management of the plant and to the dust committee. This man could be the same as the company representative on the dust committee.

4. That the borough council appoint a dust inspector to visit the plants at various intervals and to see that each company is making every effort possible to control its dust. The visits made by the inspector could replace those to be made by the committee but the inspector should report directly to the committee and to the borough council through the borough manager. The inspector should be thoroughly trained to evaluate the performance of each dust collector. He should have the responsibility of conducting a continuous dust test at each plant location and at various locations throughout the borough to determine the extent of dust fall on the plant grounds and within the borough. He should also have the responsibility of assisting the borough solicitor in taking any legal steps necessary to improve the overall dust situation.

5. That a study be made by the company engineers or others not associated with any particular manufacturer of dust-collecting equipment as to the feasibility of using a wet type of collector on the stack gases following the settling chamber and/or the dry centrifugal type of collector. Since data on this type of operation is not readily available, studies of this nature would in all probability have to be made by an independent laboratory. It is quite possible that a co-operative program could be sponsored by the different companies.

If satisfactory dust conditions do not prevail within the borough after the general housecleaning has been completed and maintained at the various plants then the author can only recommend that legal steps be taken to have all of the plants include secondary collectors for their stack gases. These secondary collectors would follow the settling chambers, dry centrifugal type and/or dry baffle type collectors and they would have to be the wet or electrical type of collector. In any event the borough would have to provide a dust inspector whose duty it would be to make certain that the collectors are operated continuously with only the minimum amount of shutdown for repairs and cleaning.

APPENDIX I

VALLEY FORGE CEMENT CO. PLANT IN CONSHOHOCKEN, PA.

The author visited the Conshohocken plant of the Valley Forge Cement Co. on Friday October 16, 1953 to observe their dust-collecting facilities. The dust committee of the borough council at Northampton requested this visit since it was reported that the plant had been exposed to public criticism and that it was now, after making appropriate changes, one of the best in the country regarding dust collection.

The author made arrangements for the visit through Mr. A. E. Douglas Jr., operations manager for the company. Mr. Douglas was most cooperative and requested that the author visit him in his office in Catasauqua prior to visiting the plant.

During the visit at his office, Mr. Douglas gave the author the historical background concerning dust collection at the plant. He stated that the plant was constructed in 1927 and that the electrical precipitators for dust collection at the stacks were installed in 1928 and have been in operation since that time. The plant was originally designed for a capacity of 2,200 barrels per day but during the war years it was necessary to increase this capacity. As a result the precipitators were overworked and there was a corresponding loss of efficiency. The company then consulted a dust-collection equipment manufacturing company and followed their recommendations leading to the present collection system. Mr. Douglas stated that the company was well pleased with the collection of dust at the stacks and that it would continue to do all that it could to control its dust. In fact, the company is planning to replace one of its present collectors in the near future with a newer type of unit.

The general appearance of the plant was very good. There was considerable evidence of good housekeeping in and around the plant and all of the collectors were in good-operating condition. There was a water leak in the wet type of collector but this did not effect the efficiency of the collector. There was however, black smoke being emitted from one of the stacks in the coal mill section of the plant. This was the only evidence of unsatisfactory dust control.

The plan operation and dust collection is somewhat similar to the Universal Atlas Plant. Both have a wet grinding process and the electrical type of dust collectors for the stack gases. Although these are greatly responsible for the

satisfactory dust control at these plants they must not be interpreted as being only satisfactory methods.

The Valley Forge plant has 2 kilns and a total of 13 collectors. They have 2 settling chambers, 2 dry centrifugal type collectors, 2 dry baffle type, 4 dry fabric type, 1 wet collector, and 2 electrical collectors.

The hot gases from the kilns pass into settling chambers, then into multiclones and finally through the electrical precipitators before entering the stack. The settling chambers remove the relatively coarse sizes of dust, the multiclones the intermediate sizes and the electrical collectors the relatively fine sizes. The dust removed from the stack gases by this series of collectors is returned to the system and is blended back into the original feed entering the kiln. The amount of dust removed from the kiln gases is approximately 180 tons per day. A record of this dust must be maintained because of blending procedures.

The two baffle-type collectors were in the clinker-cooling section of the plant and were operating satisfactorily. There was a dry fabric-type collector at the ore-crushing station, 1 in the final grinding section of the plant, 1 in the packinghouse, and 1 at the bulk loading station. The one in the final grinding section is the one to be replaced by a newer type unit in the near future.

The author would like to express his thanks to Mr. Paul A. Leichel, plant manager, and to Mr. Warren Skibbe, chief chemist, for helping to make his visit informative and successful. These men were most cooperative in showing the author the dust-collection facilities and in answering his questions.

The CHAIRMAN. Mr. Coleman, do you have a prepared statement?

STATEMENT OF IRVING W. COLEMAN, SOLICITOR, BOROUGH OF NORTHAMPTON, NORTHAMPTON, PA.

Mr. COLEMAN. No; I don't, Senator.

The CHAIRMAN. Do you have something you would like to say at this time?

Mr. COLEMAN. Yes; I do. My name is Irving Coleman. I am the borough attorney for the borough of Northampton, in Northampton County, Pa. I have lived in that community all my life. True, our community grew as a result of the cement industry locating in that area. However, over the years, it was our feeling that the industry did not recognize its local public duties in the elimination of smoke.

The CHAIRMAN. Will you yield just one moment? Is anyone here qualified to answer this question: Is it a fact that there is sufficient technical knowledge today and equipment available so that if a cement company had the money, they could eliminate all the dust, or 90 percent of it?

Mr. CHARMBURY. With the present equipment, they couldn't eliminate all of the dust.

The CHAIRMAN. Ninety percent of it?

Mr. CHARMBURY. A large percentage of it.

The CHAIRMAN. In other words, it is purely a matter of having the money to put in the necessary equipment in order to eliminate, we will say, 90 percent of the dust?

Mr. CHARMBURY. That is right, of having the funds available to help industry add additional collection systems.

The CHAIRMAN. Then if we would give them a 5-year amortization for tax purposes and permit the FHA to guarantee mortgages if they cared to borrow the money, do you think we could get the job done?

Mr. CHARMBURY. In my opinion, it would be very helpful to industry.

The CHAIRMAN. Then there is the technical know-how and the necessary equipment available today to eliminate dust and smoke if a given concern or individual has the money to buy that equipment?

Mr. CHARMBURY. Not all of the dust and smoke. Some other improvements must be made through basic research.

The CHAIRMAN. Yes, but we will say 75 percent or better?

Mr. CHARMBURY. A large percentage of it, that is correct.

The CHAIRMAN. I am sorry to interrupt you, but I wanted to get that point established.

Mr. COLEMAN. I believe that with this amendment, the companies would be more conscious of their public duty, because the situation became so bad in our community, and although there is, in Pennsylvania, legislation permitting the boroughs to pass anti-air-pollution ordinances, it is only on a local level.

Therefore, it became necessary a few years ago to resort to the institution of injunction provisions to impress upon the companies their need to recognize this problem. Although the injunction provision resulted in consent decrees in which the companies agreed to resort to the introduction of dust-collecting equipment, we feel that they have not gone far enough. In most instances, the apology was made first that the equipment is too costly, and second, that the companies were not in a financial position to install the equipment.

Certainly, with this amendment, the companies would be left without any excuse on the question of financial aid, because the aid would be forthcoming. It is, therefore, our opinion that this legislation is a step definitely in the right direction.

An interesting comment might be made on this situation. As the result of the present problem, in our particular community, our chamber of commerce has been active in trying to attract additional industry into the area, but when these industries send representatives into our community and see the deplorable dust condition, Northampton is the last place where they want to settle.

It is also interesting to point out that in all of the postwar housing developments outside of individual cases of people building their own homes, we have, in Northampton, never had housing projects. I think that that is mainly attributable to the dust condition. The fact that new industry has been deterred from coming in and housing projects have not gone forward, is certainly testimony and evidence to the effect that the situation, so far as the dust nuisance in our area is concerned, is deplorable.

The CHAIRMAN. Will you yield one moment? I want to say for the benefit of the press, if there is anyone from the press here, that we have just made a decision, Senator Mavbank and I, a few minutes ago, that we would start hearing on this FHA business at 10 o'clock next Monday.

The first witnesses will be Mr. Powell and Mr. Cole and Mr. Hollyday.

Mr. COLEMAN. It is interesting to point out to this committee that in the so-called Lehigh Valley area of Pennsylvania, in which Northampton is located, there are 17 cement mills, all of which are throwing dust upon the citizenry and surrounding community. It should be pointed out that some dust-collecting equipment has been installed, but the committee will find an excellent discussion of the effects and the various types of that equipment in Professor Charmbury's report. He points out—and I likewise in connection with the litigation that I handled against the cement companies do know—that in the inter-

vening years, many dust-collecting companies have perfected equipment which they now represent has an efficiency of around 90 to 95 percent. The difficulty with the status of the law with respect to dust pollution in Pennsylvania, at least, is that our Supreme Court has said that a person living in an industrial area does not have the same right in the enjoyment of his property as one living in an urban area, that a person living in an industrial area must take the burden of living in that area with the accompanying benefits.

I have no quarrel with that attitude, but it makes it obvious that litigation is not the answer. The answer is, as Professor Charnbury has indicated, research in the field and making available funds to industry. Industry has felt that dust-collecting equipment, in many instances, is a nonproductive asset. When you install the equipment, you are really not making any progress in the production of your item, and therefore, there has been hesitancy. I have an illustration.

One of our plants, which is a subsidiary of a large steel company, had plans and constructed a plant in which over \$10 million was spent in construction, and during which construction not one penny was allocated for dust-collecting equipment when the construction of the plant was contemplated. That seems a rather large indifference to the problem.

It is true, of course, that since then that company has resorted to the installation of dust-collecting equipment. In conclusion, it is my firm belief that if funds are available through this amendment, the final sting is taken out of the cement companies' attitude, namely, "We don't have the money to finance the installation of this equipment."

If the funds will be available, it would seem, then, that without anything more, it would not be necessary to institute litigation to compel them to get the aid that is available to them. Of course, once such installations are made, and accompanying air-pollution ordinance, which is a local problem, should be adopted so that the tests are met by the companies. Therefore, we are heartily in favor of, and hope that the committee will see fit to recommend the adoption of the amendment.

Thank you, Senator.

The CHAIRMAN. Of course, there is no question but what it is an interstate commerce matter.

Are any of the towns represented here near the New Jersey line?

Mr. COLEMAN. Nazareth.

The CHAIRMAN. Philadelphia is just across the river from Camden, and it is an interstate matter, there is no question about it. You can't eliminate smoke and air pollution in the United States without the Federal Government cooperating. It just can't be done.

Mr. COLEMAN. Your comment is interesting, Senator, because during the years of litigation, the companies have taken the attitude that their dust particles are so fine that they don't dump them on our community, but the air carries them away to some other community.

The CHAIRMAN. They have taken that position in court?

Mr. COLEMAN. That is right; so our answer is that some of the companies that are farther removed from us are letting their dust fall on us and our dust lights somewhere else.

The CHAIRMAN. Did Mr. Rothrock and Mr. Meeser want to say something?

Yes, sir. Will you identify yourself?

**STATEMENT OF RUSSELL KOWALSHYN, ATTORNEY,
NORTHAMPTON, PA.**

Mr. KOWALSHYN. I am Russell Kowalshyn, an attorney in Northampton, Pa., and like Mr. Coleman, I have lived there all my life. I am the chairman of the Northampton Citizens Cement Dust Committee. With me here is Mr. Rothrock, who is a member of that committee.

The CHAIRMAN. Is your problem still the cement plants?

Mr. KOWALSHYN. Yes, sir.

The CHAIRMAN. You proceed in your own way, and take all the time you want to.

Mr. KOWALSHYN. Present here are also representatives of the Nazareth Air Pollution Board, Mr. George Meeser, who is a member of the board, and Charles Roth, who is secretary.

The CHAIRMAN. Is that Roth or Rothrock?

Mr. ROTH. Roth, R-o-t-h.

The CHAIRMAN. There are both names here, is that correct?

Mr. ROTH. That is correct.

Mr. KOWALSHYN. Our two committees represent the public pressure that Professor Charmbury has mentioned. I would like to state that that public pressure is general, genuine, and continuing. We have been working together with the authorities who are represented by Mr. Coleman, as the solicitor of the Borough of Northampton, which is in the heart of this area, and Professor Charmbury, who is the consultant. I am sure that I speak on behalf of both committees, and on behalf of the general public in the area in saying that we wholeheartedly approve everything that has been stated by these two gentlemen, and we are in favor of the amendment which you are proposing to the housing bill.

Thank you, sir.

The CHAIRMAN. Do any more of you gentlemen want to make statements? Mr. Roth?

STATEMENT OF CHARLES ROTH, NAZARETH, PA.

Mr. ROTH. I am Charles Roth, secretary of the board in Nazareth. We have just started. The town council has just recently appointed this fact-finding committee to study the air pollution problem.

I am just a recent resident of Nazareth. I moved there just last April. I understand that they have made a study, or I should say Mr. Meeser made a study, of air pollution back in 1946. Is that correct?

STATEMENT OF GEORGE C. MEESER, NAZARETH, PA.

Mr. MEESER. Yes.

Mr. ROTH. He has the figures on that. In Nazareth, Mr. Meeser and the borough engineer took three sites and marked off hundred-square-foot areas and swept up the dust and found it to average out to 0.98 pounds per 100 square feet in a 48-hour period, which amounted, in tons, to 232½ tons in a 48-hour period, or a total over the area of Nazareth of 1,075 acres, 468,333 pounds. That is just in a 48-hour period.

Mr. MEESER. How we arrived at the 48-hour period, we had a heavy rain and we took back from that rain. It was on a Sunday that the dust fell so heavily and it was a Monday when we did the sweeping. The borough engineer came up with these figures.

The CHAIRMAN. Do you have any estimates of what it would cost the companies to eliminate 75 percent of this dust? Are there any figures available?

Mr. CHARMBURY. We have discussed this with the various companies and with companies manufacturing dust collecting equipment. For the installation of a secondary type of dust collector, which would be added onto the present collection system, it would cost about \$250,000 for a 2,000 barrel per day capacity plant. In terms of the plants in this general area, it would be possibly somewhere in the neighborhood of a half to \$1 million for the best collection system they could possibly have.

The CHAIRMAN. For each plant?

Mr. CHARMBURY. Yes. Of course, the final amount would depend upon the capacity of the plant, naturally.

The CHAIRMAN. If they were permitted to amortize this over a 5-year period for tax purposes, of course, they could then afford to do it?

Mr. CHARMBURY. That would be a big advantage for them, certainly.

The CHAIRMAN. It would certainly be a great thing for the cities around there.

Mr. CHARMBURY. It certainly would.

The CHAIRMAN. And the people.

I am amazed at the quantity of dust and dirt that you are talking about. Their lungs must be pretty well filled with it.

Mr. CHARMBURY. I would like to point out that I have been familiar with dust collection figures in other communities such as Pittsburgh, St. Louis, Baltimore and some of the other larger cities. The figures for this area in this particular community of Northampton are the highest, as far as dust fall is concerned, that I have ever seen.

The CHAIRMAN. I know that Senators Martin and Duff are vitally interested in this matter. Have you discussed it with them?

Mr. CHARMBURY. I haven't up to the present time.

The CHAIRMAN. It has been suggested to me that we should ask in a plant where the dust collection system would cost from \$500,000 to a million, what the original plant would cost.

Mr. CHARMBURY. I can't answer that question.

The CHAIRMAN. I presume the average cement mill would cost at least \$10 million or maybe more. I am just guessing now. I don't know whether it is a very intelligent guess or not.

Mr. CHARMBURY. I am not in a position to answer that.

The CHAIRMAN. Thank you very much. You were going to say something. Would it be possible to supply that information for the record?

For example, you made the statement that for \$500,000 to a million dollars, equipment could be installed that would eliminate possibly 75 percent of the dust. Could you find out for us and write us just what the entire plant would cost to replace or to build? I am trying to see what percentage of the cost of the plant would be taken up by the dust collection equipment.

Mr. CHARMBURY. We can try to find that information, although the companies are rather reluctant to give it out.

The **CHAIRMAN.** If you can find it, we will appreciate it.

Thank you.

Mr. COLEMAN. One comment on that is that for the plant to which I referred, it was computed that when they constructed their new wet process plant the cost was approximately \$10 million to construct an entirely new plant which is in our particular borough. I don't think the cost to which we referred in any way compared to the combined sums that the householders are obliged to spend in constantly painting year in and year out and in the damage to their laundry and the brooms, and so forth, that are required to constantly clean the community. It might be interesting for you to know that for most of the automobiles, when they are washed, it is necessary to use some sort of acid to wash off the cement dust that cakes on the automobile.

Mr. MEESER. Vinegar.

The **CHAIRMAN.** I know your two Senators will be vitally interested in this subject and also the Congressmen from the State of Pennsylvania. I hope before you gentlemen return today that you will call upon each of them and discuss this with them and get their support.

Mr. CHARMBURY. We will.

The **CHAIRMAN.** Do you gentlemen have any other suggestions?

I think you have made your position very clear and we certainly appreciate very much your coming down here. I would suggest that you give these facts and figures to your Congressmen and Senators. The matter of amortization, of course, is primarily a Finance Committee matter and Senator Martin is on that committee.

Mr. CHARMBURY. That will certainly be handled through the various communities that are in this area.

Mr. COLEMAN. I might say, Senator Capehart, that I am quite sure that Congressman Francis E. Walter, representing our district, is very familiar with the problems of that area and I am sure that his wholehearted support can be obtained.

The **CHAIRMAN.** Yes; I am sure it can. It is just a matter of getting them organized now, because we are going to start writing up this legislation. We were going to write it up on Tuesday. We are not going to write it up now until right after the first of May. Maybe they would like to file statements with us. You might find out. We will hold this record open for a couple of days and if they want to they can file statements.

Thank you very much, gentlemen.

Mr. MEESER. Senator, may I add one thing? The labor unions in the mills are back of this anti-air-pollution amendment because it creates a hardship in working inside the plants.

The **CHAIRMAN.** I can well understand it.

have had cases where the unions have put down
d work until the companies have laid some of

and that is why the Federal Govern-
ment thank you very much, gentlemen. We

Our next witness will be Mr. Linsky, chief smoke inspector for the city of Detroit, Mich.

Is the administrative assistant to Senator Clements present? I believe you have a statement you would like to present for the Senator. We are delighted to receive it. This is a statement by whom?

Mr. FLURY. This is a statement by John J. Maloney, who is well qualified to speak, being the mayor of Covington.

The CHAIRMAN. We will be glad to have it in the record.

(The prepared statement of Mayor Maloney follows:)

STATEMENT OF JOHN J. MALONEY, MAYOR OF THE CITY OF COVINGTON, KY.

It is my understanding that Senator Capehart's amendment to Senate bill No. 2938 on the subject of air pollution is designed to provide for rapid amortization of capital funds expended by industries for facilities to control air pollution at the source; providing such installation of equipment is required and certified by a State, Territorial, or local agency, or authority charged with enforcement of laws relating to the abatement of atmospheric pollution.

I wish to urge this honorable body to kindly consider several facts which I believe to be pertinent to the welfare and future development of all cities or fringe developments of industries in their immediate sphere of influence.

The rapid growth and improvement of industrial developments throughout the country has often been at the expense of people living not only in the immediate vicinity of large plants, but also extending for several miles around the area. This is caused primarily from fumes and smoke that lie close to the earth and add to the discomfort and health of persons affected and to the deterioration of neighborhoods because of this discomfort, and the effects on buildings. We have had several unhappy experiences in the city of Covington, of houses far removed from any particular plant or plants, yet in many cases paint has become discolored and even has been blistered and peeled; this only adds to a final deterioration of the entire neighborhood. I cite only this one instance because it is brought closest home to those in residential areas which form the backbone of any community.

I believe the passage of this bill would encourage the installation of air-pollution abatement equipment by industries, especially during periods of high earnings of which we all hope the future holds.

It further encourages communities to enact reasonable and effective legislation, and establishes means of enforcement to reduce air contamination, thus permitting industries to take advantage of the provisions of this amendment for which they will be repaid, not only through the amortization of capital funds, but in public relations affecting the communities in which they operate.

The communities themselves will thus receive the benefits of cleaner air, wherein they now endure needless and unnecessary air pollution.

With continued research to improve our industries' developments or attaining technological advancements, are too often planned without any thought of obnoxious fumes and odors that we have come to know as the natural result of our larger factories. This amendment should encourage industries, as well as make them cognizant of the fact that the Federal and local governments will work with them to eliminate this hazard to public health and welfare.

The city of Covington joins the city of Cincinnati and the other communities surrounding us in making this request, as we know that fumes and smoke recognize no political boundaries. For this reason, we compliment the Senate of the United States in recognizing this fact by proposing aid to the local political subdivisions in combating this evil.

With these thoughts in mind, I earnestly urge this honorable body to give due consideration to this amendment, which will provide so much aid and relief to many industrial centers throughout the Nation.

The CHAIRMAN. Now, Mr. Linsky, you have a statement, I presume.

**STATEMENT OF BENJAMIN LINSKY, CHIEF SMOKE INSPECTOR,
DETROIT, MICH.**

Mr. LINSKY. I didn't prepare a written statement.

The CHAIRMAN. Then will you proceed in your own way and if you have any exhibits you want to make a part of the record, we will be happy to do so.

Mr. LINSKY. Thank you very much.

The CHAIRMAN. You might identify, for the record, these gentlemen who are with you.

Mr. LINSKY. These gentlemen are other witnesses who are coming later, Mr. Daley and Dr. Greenburg, I believe.

The CHAIRMAN. They are with you?

Mr. LINSKY. Not specifically, sir.

The CHAIRMAN. Are they from Detroit?

Mr. DALEY. Providence, R. I., sir.

The CHAIRMAN. Then, you go ahead.

Mr. LINSKY. I speak for myself.

The CHAIRMAN. I thought maybe they were with you.

Mr. LINSKY. I think we are all rather new at this kind of thing, sir, and you will excuse us. I don't know whether you want me to mention my own qualifications in speaking to you. I am chief of the smoke abatement bureau of the department of buildings and safety engineering of the city of Detroit. I have held that position for over 2 years and have been in this work since 1948. I am a registered professional engineer, a graduate of Wayne University with a bachelor's degree in engineering, with a master's degree from the University of Michigan.

I have a little discussion that I might call a preamble to my statement. This amendment and the city blight that we are concerned about and the attitude of the people toward dust, gases, and odors that contribute to the blight, are all attributable to our rising standard of living and our ability to further improve our living standards. I am proud of the fact that you are concerned about it. There isn't any question that this kind of blight has been going on for generations as long as there has been industrial congregation. It is only relatively recently that intense concern has been aroused by it. People used to stay in their cities, they used to stay in their homes, close to their work places. They don't enjoy that any more if the atmosphere isn't clean. There are many other factors, of course, that lead them to leave an area.

The CHAIRMAN. Have you made much progress in Detroit?

Mr. LINSKY. We have done a tremendous job in Detroit since the fall of 1947.

The CHAIRMAN. Do you have areas there now where there are possibly new housing areas or housing development in which the smoke is ruining them in a matter of 2 or 3 years so that they will be blighted areas?

Mr. LINSKY. We have had with that yet and we don't expect to have a great amount of work that has been done in doing up the industrial area and the whole program.

The CHAIRMAN. Have you got a good smoke ordinance in Detroit?
Mr. LINSKY. We have a good smoke ordinance.

The CHAIRMAN. What is your biggest problem in enforcing it?

Mr. LINSKY. The biggest problem in enforcement, I think, is some of the unsolved problems. The one that comes quickest to mind and that covers most of the area is the apartment-house incinerator, where the problem technically is not solved yet. We can't reach into a handbook or a design book and pull out an answer and hand it to the property owner and say, "Here is how you clean it up."

The CHAIRMAN. In other words, the biggest problem is the equipment necessary to eliminate the smoke?

Mr. LINSKY. In our particular case, we think not. We think it is the research needed for the design of equipment that does not yet exist.

The CHAIRMAN. In other words, you think maybe the equipment does not exist at the moment to eliminate much of this smoke?

Mr. LINSKY. Much of that which is an enforcement problem. Aside from that it is just a matter of work on the part of our bureau, on the part of the owners of property, on things that are already known. That work we are doing as fast as we can with our staff. We have a staff of 27 people working on air pollution control on the payroll of the city of Detroit. The work that has been done in the past 6½ years totals over \$14 million in actual air pollution control equipment installation.

The CHAIRMAN. By private industry?

Mr. LINSKY. By all owners of property, including the city as an owner of property, including our board of education as an owner of many school buildings, most of which are right in the hearts of the residential areas.

The CHAIRMAN. This bill proposes three things: First, quick amortization for tax purposes for those who will install the necessary equipment to eliminate smoke; second, permitting the FHA to guarantee their mortgages, making it easier for them to borrow the money if they need to do so to put in the necessary equipment; and third, money for research.

Of the three, which would help you most in Detroit?

Mr. LINSKY. They would all three help. The one that is most essential for us, I believe, is the research money. But that is a Detroit situation.

The CHAIRMAN. You think that might well be local to Detroit because you do have a good ordinance now and you have been after it for six and a half years and much progress has been made?

Mr. LINSKY. That is correct. We are favorably situated in that regard.

In other communities I am certain it is different.

The CHAIRMAN. And you are getting down now to the point where I gather most of your smoke is coming from sources that you do not know how to control, or which they do not control, and you don't know how to tell them to control it; is that the situation?

Mr. LINSKY. Basically, that is it with a little modification. We still have to do a lot of crank turning on problems that we know about. You can't dash madly in all directions like writer Haggard's hero. You still do things in an orderly fashion with the time and staff that you have.

I might point out that on the quick tax writeoff, which is an assist to installers of equipment, it certainly would make the installation of such equipment less painful, when it is one-way money anyway, nonproductive expenditure. It would make it less painful.

The CHAIRMAN. And it benefits everybody. If you are going to give tax amortization for that purpose, the company concerned gets no benefit from it at all. It is the thousands and thousands of people who are inhaling the smoke and dust and dirt that they are creating that really get the benefit from it.

Mr. LINSKY. I have a few comments that I have noted on this. I thought it might be well to give an example of what kind of money we are talking about. If we are talking about an installation in a large boiler for fly-ash collection, it costs about a hundred thousand dollars. If they had put it in in the first place it would only cost about \$25,000. There is very roughly a ratio of 4 to 1 on a designed-in and a shoehorned-in installation.

The CHAIRMAN. If it is a corporation, they would automatically have a tax of 52 percent.

Mr. LINSKY. That would be roughly \$2,500 a year. At 5 years, \$20,000 a year, there would be a definite saving. At 52 percent there would be \$10,000. The difference is \$7,500 a year, roughly, by which they would be able to reduce their pain.

The CHAIRMAN. Ordinarily a man makes an investment of a hundred thousand dollars or a million dollars and makes money on it. It is an investment when he increases his capacity and sells more goods. Or he makes an investment in order to make goods cheaper. But in this instance, you see, he doesn't make any money on it.

Mr. LINSKY. We call that one-way money.

The CHAIRMAN. He makes just as much money out of his plant if he has a lot of smoke coming out of his smokestacks as he does if he doesn't have any.

Mr. LINSKY. We call that one-way money.

The CHAIRMAN. That is right. The people who will benefit will be the people who do not have to inhale the smoke and dirt.

Mr. LINSKY. By itself we do not feel that that would be a strong enough incentive. You still have to have the community standards, the matter set down in law or threatened to be set down in law, before a manufacturer can justify to his board of directors making that kind of an expenditure.

The CHAIRMAN. That is right.

Mr. LINSKY. There is another point on that tax advantage. Many plants have been getting this 5-year tax writeoff on this kind of equipment. I think you know that. Many plants have been installing air pollution control equipment with a 5-year tax writeoff if they had a certificate of necessity for the construction of the plant.

The CHAIRMAN. Yes, that is right.

Mr. LINSKY. A great deal of that kind of thing has been done in the Detroit area. I don't have any figures on it. We were speaking of a cement plant here a few minutes ago—the previous witness. We have a cement plant in Detroit which is expanding and is installing a half-million dollars worth of air pollution collection equipment. It is just going on the line now. My understanding is that that is

under a certificate of necessity as part of the plant expansion, but that will clean up that whole area.

This tax feature has been endorsed by the advisory board to the Bureau of Smoke Inspection and Abatement of the City of Detroit. It has also been endorsed by the Common Council of the City of Detroit.

There is a question as to the certification method, but that is a matter of procedure which I am certain can be worked out.

On the question of FHA insurance, for the first time last week in our office the question was raised about FHA insurance for air pollution control equipment. This was in connection with a rental apartment project being built under FHA insurance. As I understood it—and I was not able to research it—they could not get FHA credit for garbage grinders and incinerators they wished to install in the apartment house.

The CHAIRMAN. To eliminate the smoke? They refused to give it?

Mr. LINSKY. My understanding is that it was not eligible for FHA credit. It is a point I am not certain of.

The CHAIRMAN. We can make it eligible.

Mr. LINSKY. There is no other insurance that I know of where such an FHA insurance would have been usable in the past. However, as money gets tighter and profit margins tighten up, it may very well be a usable feature in the future and may even be right now in other areas and in projects I don't know about.

On research, there is no question that we need applied research on most problems, and pure research on a few problems. You know the story of the farmer who was being urged by the county agricultural agent to come in to town and attend the conservation and soil improvement courses. He said, "Son, I am not going to come in." The young county agricultural agent said, "Well, why not? You will learn how to do things better and improve your farming operations."

He said, "Son, I ain't going to come in. I ain't farming half as well as I know how now."

The CHAIRMAN. There is a lot of truth in that.

Mr. LINSKY. There is a lot that can be done simply by spreading information on available answers, information between, let's say, this plant I just spoke of in Detroit and the plant these men from Nazareth were just speaking about. There is parallel information available on control equipment. It is not yet set down in handbooks because technically this field is still relatively new. A method of transmitting that information would be useful.

The CHAIRMAN. In other words, you think a method of transmitting good results by many throughout the country to many others would be a good thing?

There is some research work that is not available from either local governments or industries because of the nature of the industry and the nature of the problems that we don't know now. There are some where we don't know the answers such as municipal incinerators, apartment house incinerators, as I mentioned once before, Bessemer steel furnaces, and sewage disposal sludge furnaces. In addition to that, the assembly of case histories in places where it has been done would be very helpful. Some work on that has been done but it is still minimal; the work that has been done.

I have here the proofs of a bibliography on air pollution prepared by the Bureau of Mines which is just going into print. That takes it up to a point. It doesn't keep it current, however. Where do I go for my answer now? As to the haze, smoke and smog that many areas have experienced, by doing inter-city research or measurement at the same time under different weather conditions in different parts of the country those areas that have the trouble may learn why they have it by comparing with others that aren't having it. What is it that Los Angeles does have in its atmosphere? If we could do a complete measurement of several communities the thing might stand clear and would help Los Angeles with their specific problem. Detroit is doing work, of course, and is working with the University of Michigan; with the other universities in the area, and with the other cities. But more work needs to be done, not only in Detroit but in every other major city. The question has been raised about the effect on blight. I would like to talk about that a moment. It is highlighted, possibly, in an advertisement of one of the fabric companies. It says, "Safer in Soot." I believe it is that kind of thing that is chasing people away from these cities.

The CHAIRMAN. It says, "Safer in Sun, Safer in Soot and Safer in Soda."

Mr. LINSKY. Yes. That advertisement I have seen in papers in several parts of the country. I should like to get into the record and for your own information what Detroit is spending on its air pollution work. Our budget runs between \$100,000 and \$150,000 a year of our bureau's operation. It has not been threatened in any way. The city feels that benefits are being obtained from that work. In addition to that bureau budget we are also engaged in research work, together with some of the Federal agencies, because of our international problem. The Detroit River runs along the other side and we have the problem of smoke from ships going up and down the river. We have been supporting that work because funds were not available to the Federal Government to do the work itself. We have been paying \$4,000 a year out of our bureau's budget to rent quarters for the technical advisory board of the International Joint Commission to carry out its international treaty required actions. That is kind of silly but we are doing it because we think the results will be helpful to us and the information will be useful to us. We will be able to use it in our further program. But it doesn't add up.

This is a map of the city of Detroit. I would like to indicate blight and air pollution, if I may. The title of this chart is obvious, "Neighborhood Conservation." It has been gotten up by the City Planning Bureau of the City of Detroit and by other bureaus in cooperation therewith. The areas that I have marked as "E" are areas that are so badly blighted that they will have to be cleaned out, either now or later. In those areas marked as "E", the lighter shades are the ones they figure will be cleaned out or completely developed. The slightly darker areas are ones where they might be considered for consideration but they will have to be cleaned out in the future. The areas marked "1" indicate our heavy industrial

I will
and

own-river area, both inside
- industry belt along here and

another industry area along through here up the river and out in the north. That area in the center, however, is the area that is blighted. It is not that which is immediately adjacent to the industries. Although there are evidences of blight in the past. As we have been cleaning up the air pollution by intensive work, that blight is reducing. In the heart of the city you have a history of blight and air pollution, of heavy smoke from badly burned coal, badly fired coal, and a generation of history, in fact, several generations of it.

People have moved out. One of the reasons that is so common is, "I wanted to get out in the fresh country air, or the fresh city air, or the fresh suburban air for my kids." This you don't pinpoint to a specific problem. It is the overall air pollution blight problem. It is in this field that I think much of this research toward which your bill is pointed can be helpful. I appreciate this opportunity to appear.

The CHAIRMAN. You have certainly been very, very helpful and we appreciate it. You have given us some very fine information. I know the Senators from your State and the Congressmen are interested in this subject and I would suggest you talk to them before you leave town.

Mr. LINSKY. I will specifically, sir.

The CHAIRMAN. You should get them interested in this problem. It is really their problem.

Mr. LINSKY. There is one point that they will be concerned about, just as I am certain you are. That is the requirement that should be emphasized either in wording or understanding—an understanding between men is as good as wording many times—that the research be keyed to the local community problem. With \$5 million worth of research you can't do a lot of wild blue yonder research. You have got to concentrate on the problems you know you have. You have got to concentrate on the smog problem that Los Angeles knows it has, on the problems that New York knows it has, on the equipment design problem that we know we have.

The basic research is good and will be useful, but I think this is not the bill for it. I wonder if that is your feeling, sir?

The CHAIRMAN. You mean the housing bill is not the bill for it?

Mr. LINSKY. Not the bill for the wild-blue-yonder research but for the immediate applied research.

The CHAIRMAN. Possibly so. We feel that the housing bill covers the slum clearance and blighted areas and we feel that blighted areas and slum clearance primarily are caused by smoke, dirt, dust, and so forth. It is not going to do much good to build new buildings in these areas and then have the same condition exist with smoke coming down upon them and making them blighted and slum areas again in 10 years. We will not accomplish much by doing that. That is why we are interested in the subject as a part of this bill.

Mr. LINSKY. Along that line is why we feel that if either spelled out in the bill that there be a local advisory group of people like myself, Dr. Greenburg, Austin Daley, and others to guide that research work so that it is well pointed, it would be helpful.

The CHAIRMAN. There is no question but what we need more research. Thank you very much.

The next witness will be Mr. Austin C. Daley, chief, air pollution regulation engineer, from Providence, R. I.

**STATEMENT OF AUSTIN C. DAILEY, CHIEF AIR POLLUTION
REGULATION ENGINEER, PROVIDENCE, R. I.**

Mr. DALEY. I know you are awfully busy and I intend to be brief. I have a brief statement which I would like to read. Following it, I would like to make some informal remarks.

The CHAIRMAN. You may proceed in your own way.

Mr. DALEY. My name is Austin C. Daley. I am the air pollution engineer for the city of Providence, R. I., a position I have held since January 1, 1949.

I am a member of our Air Pollution Control Association of America and have served on its dusts and fumes committee.

I am an engineering graduate of the University of Rhode Island and a registered professional engineer in the State of Rhode Island.

Air pollution is annually costing Americans millions of dollars in property damage. This damage manifests itself in many forms. The cost of painting structures in cities is much greater than in rural areas because of the dirt in city air.

Rain combines with sulfur from smoking chimneys, creating a diluted sulfuric acid which actually eats away stonework on buildings.

You gentlemen have all seen city buildings of stone being steam cleaned or sandblasted. This is an expensive process and is required only because of polluted air.

It is very disheartening for an urban resident to complete a new paint job on his house and have it covered with soot and dirt before the paint is even dry. Several industrial plants in Providence have paid damages to homeowners who suffered this mishap.

This is a problem that must be faced by all those interested in public, semipublic or group housing. Very few new housing developments are built in the wealthy residential areas and smoke and fly-ash from industrial stacks can cause rapid deterioration of a handsome new housing development.

Sootfall not only damages the property but it ruins the morale of those who live in the housing units. This speaker has on several occasions entered the homes of housewives who wept openly in frustration because of the filth that had been drifting inside their homes from nearby stacks. It is quite disturbing also to have a woman show you her infant covered with soot immediately after putting him out in his carriage for a sunning. A big washing hung out to dry and getting showered with filth is just another complaint.

Among the sites proposed for a new, upper middle income bracket apartment development is a spot on the east bank of the Providence River. It was pointed out that with Rhode Island's stream pollution abatement program rolling along nicely, this would be an attractive place to live.

That point may well be true but the site considered is only a quarter mile from the local power utility which has seven large stacks which frequently fire pulverized coal without benefit of electrostatic collectors. As a result, tons of soot and fly-ash will be showered on these new units if they are located in this proposed spot. The installation of electrostatic collectors by the utility is the only answer. All pulverized coal-firing plants located in cities should be equipped with these collectors. However, they are the most expensive of all air

on abatement equipment and that's where the Capehart-Kuchel amendment would be of immense help.

story on the Providence Power utility can be repeated all over the country in steel mills, cement manufacturing, steam generation, chemical processing, and even down to the small homeowner firing inefficient smoky old kitchen stove.

pollution with its dirt and filth hurts our property and our health. It just isn't good municipal housekeeping. We in the administrative and pioneering phase of this work are grateful to Senators Capehart and Kuchel for offering us such a strong weapon to aid us in our fight to give the American people clean, fresh air.

Now, please allow us to make a suggestion on the air pollution prevention provision of this amendment.

One of the studies of the harm polluted air does to crops and livestock is that the Department of Agriculture can best handle this work. The Weather Bureau is admirably equipped to handle the meteorological aspects of the problem.

The Bureau of Standards could measure property damage.

From a health aspect, still a very controversial issue, could logically be handled under the Department of Health, Education, and Welfare.

When it comes to research on air pollution prevention and stopping the source, it is our opinion that there is no department as well equipped for this task as the Bureau of Mines. This department has the strongest right arm for air pollution control in America. When the administrative field are at loss for an answer we write to the Bureau of Mines and get it.

Manmade air pollution is caused by the exhaust products of combustion. Combustion is impossible without fuel and who knows more about fuel and fuel burning than the Bureau of Mines?

In conclusion allow us to express our thanks once more. This amendment will go down in history as the first positive step ever taken in the nation to clean up the air that its people must breathe.

CHAIRMAN. Thank you very much. We appreciate your statement. We have pretty much covered with other witnesses some of the questions that we might ask you. There is no question in your mind that we would get the cooperation of the cities, is there?

DALEY. I think you would get enthusiastic cooperation, Senator. I want to emphasize, sir, that what has been done in the past has been done to compare with this. The only time I have ever heard of anybody doing anything was in 1307 in England when a king passed a law about coal that was mined in the sea. That amounted to nothing. It is a problem which has been facing mankind for centuries. To the best of my knowledge, this is the first time that any country has tried to do something about it. It is a growing menace. I am delighted to get into the health aspects. I remember when I was in the Navy, I was in the Orient, I used to be shocked by conditions of sewers in the streets and poor municipal water supply. We have been regulating pure food, the municipalities supply us with uncontaminated water, we have proper waste disposal, and yet the most important food that nature gave us was air and we do nothing about it.

CHAIRMAN. And we breathe it 24 hours a day.

DALEY. We can do without other things for quite a bit longer than we can air. Nothing has been done. No matter how this comes

out, it is a wonderful shot in the arm to the morale of people who are trying to do something about it.

The CHAIRMAN. We are going to try to do it this year and if we can't we are going to keep at it next year and the next year. I am thoroughly convinced that it is one thing that is vitally needed.

I am likewise thoroughly convinced that the cities and the counties and States cannot do it without the cooperation of the Federal Government. It is an interstate matter and I am hopeful that you will enlist the assistance of the Senators and Congressmen from your State.

Mr. DALEY. I fully intend to do so, sir.

The CHAIRMAN. Talk to them before you leave here today if you have time and arouse some interest in this problem. I think it is a terrific problem. There is nothing worse than to sleep and breathe this soot all night.

Mr. DALEY. The magnitude of the problem is impressive but the thing that impresses us is that you and Senator Kuchel, as far as I know, are the first ones in any country who have ever attempted to do something on a nationwide scale.

The CHAIRMAN. We are going to see if we can do it. We have a certain amount of resistance here. You get that on new ideas all the time. It ought to be done and I am certain we are going to be able to make some sort of a start on it. Just how elaborate we can make the first jump, I don't know, but I am sure we can make a start on it. I think it is a much needed thing.

Thank you very much.

We will now hear Dr. Greenburg.

**STATEMENT OF LEONARD GREENBURG, M. D., COMMISSIONER
DEPARTMENT OF AIR POLLUTION CONTROL, NEW YORK, N. Y.**

Dr. GREENBURG. Mr. Chairman, my name is Leonard Greenburg. I am the commissioner of air pollution control for the city of New York. I have been on that job for going on 2 years. I am a graduate in engineering and a licensed professional engineer, and I happen also to be a licensed physician in the State of New York. I have read over this bill and I have prepared a brief statement which I would like to read.

The CHAIRMAN. You may proceed in your own way.

Dr. GREENBURG. I will submit it to your committee and then I will try to answer any questions which may arise.

The object of this bill is to further the elimination of smoke and air pollution in the United States by financial assistance from the Federal Government along 3 lines: (1) by the provision of \$5 million in funds to the Department of Health, Education, and Welfare for the undertaking of studies and the conduct of a program of a technical research in the field of air pollution; (2) by the provision of loans to business enterprises and the purchase of obligations of business enterprises by the Housing and Home Administrator to aid in financing the purchase of equipment for air-pollution control. The total amount of such investments, purchases and commitments shall not exceed \$50 million at any one time; and (3), the provision of a deduction with respect to the amortization based on a period of 60

months of any device, structure, or equipment for the collection at the source of prevention or elimination of atmospheric pollutants.

For many years, industry in the United States has been growing at a rapid pace. But only relatively recently, have we, in this country, become aware of the important bearing of the effects of atmospheric pollution on the health and comfort of the citizens of our cities. At the present moment, there are two great needs in this field. In the opinion of the speaker, they are as follows:

1. We need more technical knowledge of the causes of atmospheric pollution and the devices and methods necessary for the control of such air pollution; and

2. Industry and those who pollute the atmosphere must place in operation the best known devices for the prevention of the dissemination and for the control of atmospheric pollutants.

The first of these needs will be greatly aided by the provision of \$5 million per annum to the Department of Health, Education, and Welfare, as set forth in the bill. In the opinion of the speaker, this portion of the bill is well drawn, for it enables the Public Health Service to utilize the widest possible range of Federal and other agencies for assistance in this program. One point which the speaker wishes to call to the attention of the committee is the fact that this portion of the bill does not mention studies on interstate atmospheric pollution and I believe the bill would be greatly strengthened by the addition of specific authority granted to the Department of Health, Education, and Welfare for studies on interstate atmospheric pollution.

In cooperation with local jurisdiction, I believe that should be written into the bill specifically, because it is one of the areas that now constitutes the most difficult problem to resolve.

Briefly stated, the problem of interstate atmospheric pollution is in need of intensive study at this time. The Department of Health, Education, and Welfare and the Bureau of Mines are the agencies of choice for such studies, and it is for this reason that I believe the proposed bill should be amended so as to include such provisions.

The second of these needs is the assistance to industry to aid in the financing, purchasing, installation, and construction of air-pollution-control devices which will be greatly furthered by the provision of loans to industry and the provision of rapid tax amortization. Briefly stated, we find that industry is often cognizant of its responsibility in the field of air pollution and is highly desirous of controlling air pollution generated by its processes. But, very frequently, industry finds that this imposes a financial burden which it cannot readily meet. The speaker feels, therefore, that the provisions outlined in this bill would greatly assist industry in meeting its community obligations and for this reason, we favor the passage of this proposed act.

To sum up, I would like to say that with the addition of provisions for the study of interstate air-pollution control, I believe that this act should have the full support of the Senate Banking and Currency Committee and the Congress of the United States.

The CHAIRMAN. Do you have a good law in New York City?

Dr. GREENBURG. Yes, sir, we have a pretty good law, sir. We keep on amending it all the time and are trying to improve it. We have a staff, now, of about 75 people, and our budget is about \$375,000. For the coming fiscal year, it will be about \$450,000.

The CHAIRMAN. You feel this legislation would help your situation in New York?

Dr. GREENBURG. I believe it would help many parts of the problem very greatly; yes, sir.

The CHAIRMAN. There is no question but what it is an interstate matter?

Dr. GREENBURG. There is no question in my mind. For instance, we know that our position in New York, with the prevailing winds, the direction of the prevailing winds and their velocity, brings pollution to us from adjoining States. It is very difficult to move on this problem.

I believe this is a prime area for the Federal Government to step in, and I believe that the Public Health Service and the Bureau of Mines could lay the groundwork for important studies in this field which should help us greatly. I would like to make one other suggestion, if I may.

The CHAIRMAN. Yes, we would be delighted to have you do that.

Dr. GREENBURG. Mr. Linsky made this suggestion. I think that if the Public Health Service gets the money for this work, there should be an advisory committee from the various States and cities or agencies interested, so that the Public Health Service would move along practical lines as we see the problem right on the firing line in our own cities and States. It is important that we get help along those lines, and in a more practical fashion, so as to solve pressing day-to-day problems.

I think, finally, I would like to make one other suggestion that I don't think was mentioned in the proposed bill. That is that if the Public Health Service gets this money, they do some basic educational work in the field and assist the States and cities from the educational viewpoint. They might employ one or more educational experts to prepare pamphlets and material which could be used in the local areas effectively.

Education is a very important part of this field. It is pretty difficult in a local city to get money for educational efforts. If the Public Health Service had this money, they could do it on a central basis and then the material could be picked up by the various cities and used in these local jurisdictions. It would be of great help to us, undoubtedly.

The CHAIRMAN. Do you have any questions, Senator Payne? If not, thank you very much. We appreciate your testimony.

Our next and last witness will be Mr. John Clausheide of Evansville, Ind. He is the smoke commissioner of Evansville. We are delighted to have you, Mr. Clausheide. If you will proceed in your own way, we will have some questions for you.

STATEMENT OF JOHN CLAUSHEIDE, SMOKE COMMISSIONER, EVANSVILLE, IND.

Mr. CLAUSHEIDE. My name is John Clausheide, I am the smoke commissioner for the city of Evansville, Ind. We had an annual loss of approximately \$100,000 in air pollution damage last year, as much as \$100,000 like this.

The CHAIRMAN. Do you have a smoke ordinance?

Mr. CLAUSHEIDE. We have a smoke abatement ordinance alone. Last week a group of irate citizens appeared before the city council and asked that we have a prohibition against odious, noxious gases, and so forth, and fumes from plants. Our chief form of air pollution—we won't dwell any longer on dust fall—is smoke and industrial gases. We have only a smoke law, but we are amending it now to include industrial gases.

The CHAIRMAN. What is your biggest resistance in enforcing this law?

Mr. CLAUSHEIDE. Our chief drawback there is finance.

The CHAIRMAN. Finance?

Mr. CLAUSHEIDE. That is right.

The CHAIRMAN. In what respect? There is not enough money to catch the offenders?

Mr. CLAUSHEIDE. We are confronted mostly with the small industrialists and the smaller businesses, where just a few hundred dollars is the difference between successful operation and no operation at all.

The CHAIRMAN. Would this legislation help you in Evansville?

Mr. CLAUSHEIDE. It would definitely help us. Outside of air pollution being a prime factor, financing would be No. 2. Getting back to our loss, our smoke abatement program now is 5 years old, and we have reduced our smoke 70 percent. We have a cooperational form of ordinance that has been complied with greatly by the railroads. They know the value of smoke abatement in efficiency.

In 1949 we had between 110 and 125 locomotives every 24 hours. Today, we have one. Our smoke has been definitely pulled down to 70 percent of its original volume. Now that we have reduced this \$600,000 to approximately \$200,000, we know this can definitely be reduced more, yet by giving the small industrialists means of financing a program that will help them install this equipment they need so greatly.

I also made a little survey before coming up here, through the realtors of the city, which I think will interest you. Suburban building is up 32 percent in our area over city building. Of this 32 percent, 40 percent give the reason that they want to escape the exhaust of the city, air pollution, smoke, dust, fumes, and so forth, by going to the country. I contacted a number of the realtors there and they have given me this figure with the best assurance that it was correct.

The easiest way that any small business can do it is to start with a small amount of money and any exhaust fumes or byproduct they have in the plant is fanned out in the atmosphere because of the immense cost of a lot of this equipment. Most of your industries today are synthetic industries. You may have the industries coming up in fields such as the gentleman spoke of awhile ago of cement, and so forth, but now you have all your heavy chemical industries, such as plastics, and so on, with an immense volume of fumes.

I have one particular case in mind where the fumes run about 4,000 cubic feet a minute, where the entire residential district, which is on the top of a hill, appeared before the safety committee to ask that an ordinance be adopted to prevent this company from turning loose fumes. So, health has been affected and property owners had sold their property.

The radio and the TV station were among the chief opponents of this company. We have been working with them consistently since 1949. They have given us the information that they do not have the money to go ahead with this. I do not know definitely that it can be cured, and it is within their scope of finances if they had some means to finance this.

The topographical terrain of our city, as you know, is that we are situated in the center of a soft-coal region. We do not advocate against the use of coal. As a matter of fact, we go along with it. We want to uphold our centralized industry.

The CHAIRMAN. I am 100 percent with you on that.

Mr. CLAUSHEIDE. We go into the boiler room, the place where the fumes originate, and through engineering and salesmanship, we get the property owners to go along with us to stay away from the arms of the law. We find that with proper financing, the small-home owner and the small-business man would definitely go into air pollution control.

The CHAIRMAN. Do you think the three features of this bill would be helpful to your city?

Mr. CLAUSHEIDE. I definitely do.

The CHAIRMAN. And help to eliminate more of the smoke?

Mr. CLAUSHEIDE. That is right. Today we must depend upon such institutions as the bituminous coal research, the Coal Producers Association, the United States Bureau of Mines, and so forth, for our information pertaining to smoke abatement.

The CHAIRMAN. Do you have areas down there where even though you build new houses in the areas, within a period of time, as a result of the smoke and dirt, they would become slums and blighted areas?

Mr. CLAUSHEIDE. The situation that I spoke of is in a highly residential district that will definitely be on the downgrade due to these fumes. We have a slum clearance program in Evansville at the present time. Incidentally, the two slum clearances in progress now are probably situated in the dirtiest parts of the city.

The CHAIRMAN. And when you build new buildings there, they will become dirty?

Mr. CLAUSHEIDE. That is right. They will become deteriorated in a few years. That is about all I had, Senator.

The CHAIRMAN. You have been very helpful, and we appreciate your coming in, as we do all other witnesses. I cannot help but comment, Senator Payne, that we have had 3 days of hearing and listened to 30 or 40 witnesses, and we have not had a single witness who has been against this bill or any portion of it.

Everybody has been for it. I think it is the first time in my history in 10 years in the Senate that every witness has been for a bill.

Is there anyone out there who is against this legislation? I hear no one. I suppose that one reason that everybody is for it is that everybody wants to get rid of smoke and dirt.

We thank you very much. You have been very helpful, and we appreciate it.

Is there anything else to go in the record? We will hold the record open until Monday, in case anyone wishes to file any additional statements or supplements.

Is there any other matter to go in the record? Do you have anything, Mr. Chief Clerk?

Mr. DIXON. I have reports here which may not have been put in, yet.

The CHAIRMAN. Without objection, we will place in the record whatever reports from Government agencies we may have or receive.

(The reports referred to follow:)

HOUSING AND HOME FINANCE AGENCY,
OFFICE OF THE ADMINISTRATOR,
Washington D. C., April 6, 1954.

Re amendment of S. 2938—Smoke elimination and air-pollution prevention

Hon. HOMER E. CAPEHART,

*Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.*

DEAR SENATOR CAPEHART: This is in reply to your letter of April 3 requesting our views on a proposed amendment to S. 2938 which would add a new title VIII, "Smoke Elimination and Air Pollution Prevention," to the bill.

The proposed additional title would authorize research, loans, and special tax benefits to assist smoke elimination and air-pollution prevention. The Housing Administrator would be authorized to administer the loan program under which loans would be made in cooperation with banks or other lending institutions to business enterprises to aid them in financing the purchase, installation, construction, reconstruction, or remodeling of smoke elimination of air-pollution prevention devices, structures, machinery, or equipment.

This Agency is in accord with the purposes of the proposed amendment. Excessive smoke and air pollution, injurious to both health and property, have become a major problem in most of our industrial areas. Smoke and air pollution are substantial contributing factors to the deterioration of homes in many areas. The proposed amendment therefore complements the provisions of S. 2938 which would assist in improving and conserving housing and neighborhoods.

The experience of this Agency in administering loan programs leads us to suggest that your committee might wish to consider amending the provision in section 803 (b) (appearing at p. 6, line 3) which states that loans under the proposed new title "shall be made in cooperation with banks or other lending institutions." This provision as it is now worded would give the Housing Administrator no authority to make loans without the participation of lending institutions in the few instances where such authority may be needed either because there is no lending institution operating in the locality willing to participate in such a loan, or because the lending institution offers to participate only upon terms which would result in the Government assuming an undue share of the risk in relation to its share of the proposed interest charges or other charges. It is suggested that this provision be amended to permit the making of loans in such cases without the participation of private lending institutions. Provision could be included to make it clear that the additional loan authority could be used only in exceptional cases where it is essential in order to accomplish the purposes of the title. Such an amendment should result in relatively few loans being made without participation by private lenders, but would nevertheless be helpful in strengthening the position of the Federal Government in connection with the negotiation of the terms of participation agreements.

It is also suggested that the word "elimination" might be substituted for the word "abatement" on page 2, line 14, and page 13, line 18, merely in order to make the language at these two places consistent with the language used in other provisions of the amendment.

Some consideration has been given to the amount (\$50 million) of the authorization for loans. However, this agency has no facts on which to make a reasoned estimate of the amount which should be provided, since there has been no opportunity for us to study the actual extent of the problem or the types of devices, structures, machinery, and equipment which would be financed by the loans. Such information as we do have indicates that expenditures by large industries for smoke elimination or prevention of air pollution can run into large amounts. The testimony which your committee will receive on this amendment when hearings are held will no doubt give you a further basis for determining the amount of authorization which should be provided.

This agency recognizes that tax authorization provisions along the lines of the proposed section 804 could furnish a major incentive toward solving the

problem of excessive smoke and air pollution. However, because a full evaluation of the technical features of the section involves considerations of technical tax matters, this Agency is not in a position to comment on them. We assume that your committee will obtain from the Treasury Department its advice concerning these technical provisions, as well as the section as a whole.

At the request of members of your staff who have informed us that your committee is about to consider the proposed amendment, this report is being sent to you prior to clearance with the Bureau of the Budget. As soon as the Bureau's views are obtained, we will send you a supplemental report.

Sincerely yours,

ALBERT M. COLE, *Administrator.*

HOUSING AND HOME FINANCE AGENCY,
OFFICE OF THE ADMINISTRATOR,
Washington, D. C., April 19, 1954.

Re amendment of S. 2938—Smoke elimination and air pollution prevention

HON. HOMER E. CAPEHART,

*Chairman, Committee on Banking and Currency,
United States Senate, Washington 25, D. C.*

DEAR SENATOR CAPEHART: My report to you of April 6 with respect to a proposed amendment of S. 2938, smoke elimination and air pollution prevention, explained that the report was being sent to you prior to clearance with the Bureau of the Budget and that as soon as the Bureau's views were obtained we would advise you further. Accordingly, there are enclosed copies of the letter which this Agency received from the Bureau on the proposed amendment.

Sincerely yours,

ALBERT M. COLE, *Administrator.*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., April 13, 1954.

HON. ALBERT M. COLE,

*Administrator, Housing and Home Finance Agency,
Washington, D. C.*

(Attention: Mr. B. T. Fitzpatrick, 614 Normandy Building.)

MY DEAR MR. COLE: This will acknowledge your letter of April 6, 1954, transmitting copies of the report presented to the Senate Committee on Banking and Currency on an amendment proposed by Senator Capehart to S. 2938, adding a new title VIII. This title would authorize research, loans, and special tax benefits to promote smoke elimination and air pollution prevention.

The objectives of the proposed amendment are important to the protection of the health and property of our urban population. It would appear, however, that in the main the initiative for achieving such objectives should be local, and that if Federal assistance is necessary this can be provided in substantial measure under existing authority.

The present statutory authority of the Department of Health, Education and Welfare and other agencies to engage in research appears already adequate to accomplish most, if not all, of the purpose of the proposed section 802. With respect to the loans proposed in section 803 to help business enterprises finance equipment to abate air pollution, we have no evidence either of the need for such assistance or of the inability of private lenders or other governmental sources to provide such financing on reasonable terms; accordingly, it would appear inconsistent with the fiscal objectives of this administration to authorize this new loan program unless other resources are not available to meet these specific needs. We are advised by the Secretary of the Treasury that enactment of the general tax revisions now pending before the Congress would materially reduce the possible need for special tax incentives and that consideration of the proposal in section 804 to authorize accelerated amortization for tax purposes should be deferred until studies now under way can be completed.

For the foregoing reasons, while recognizing that the purpose of the proposed amendment is meritorious, the Bureau of the Budget is unable to recommend its favorable consideration.

Sincerely yours,

ROGER W. JONES,
Assistant Director for Legislative Reference.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
Washington, April 19, 1954.

HON. HOMER E. CAPEHART,
*Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.*

DEAR MR. CHAIRMAN: This letter is in response of your request of April 3, 1954, for a report on an amendment relating to smoke elimination and air pollution prevention intended to be proposed to S. 2938, the Housing Act of 1954. The proposed amendment would insert a new title VIII in the housing act which would authorize Federal aid for air pollution prevention and abatement through research, loans, and purchases of private business obligations, and rapid tax amortization benefits.

The Secretary of Health, Education, and Welfare would be directed and authorized to undertake and conduct technical research and studies concerned with (a) causes of air pollution and excessive smoke, (b) devices, structures, machinery, equipment, and methods for the prevention or elimination of excessive smoke and air pollution, or the collection of atmospheric contaminants, and (c) guidance and assistance to local communities in smoke abatement and air pollution prevention and control. In conducting the research and studies, the Secretary would be authorized to contract with Federal, State, or local public agencies, educational institutions, or nonprofit organizations, and to disseminate the results of research so as to make it useful to industry and the general public. Up to \$5 million would be authorized to be appropriated to carry out the research program.

The Housing and Home Finance Administrator would be authorized to aid business enterprises in the financing of air pollution control devices, structures, machinery, or equipment through loans and purchases of obligations. A determination would be required by the Administrator that the loans would accomplish the objective of (a) substantially reducing the amount of smoke or air pollution or contamination in the community, or (b) in conjunction with other proposed action in the community, substantially reducing the amount of such smoke, pollution, or contamination. Provision is made for determination of interest rates on such loans in cooperation with the Secretary of the Treasury. The amendment would authorize an appropriation of funds sufficient to carry out an assistance program of not to exceed \$50 million outstanding at any one time. Not more than 10 percent of the funds provided could be made available in any one State.

The Internal Revenue Code would be amended to permit for Federal income tax deduction purposes the rapid amortization (over a period of 60 months) of devices, structures, machinery, or equipment for the collection at the source or for the prevention or elimination of atmospheric pollutants and contaminants. This special tax benefit would be available to the extent that the property which would be amortized is certified by the Secretary of Health, Education, and Welfare as being in aid of the collection at the source or the prevention or elimination of atmospheric pollutants and contaminants.

The amendment would provide also that the authority of the Federal Housing Commissioner, under the National Housing Act, as amended, shall be used to encourage home conversion and improvement loans which will aid in smoke abatement and air pollution prevention.

We are confining our comments on the proposed amendment to the provisions which would confer jurisdiction upon this Department in the field of research and for the certification of eligibility for tax benefits.

With respect to the need for research, there is increasing evidence that polluted air over cities and metropolitan areas constitutes a serious hazard to their health and welfare. There have been a number of specific instances in which loss of life, serious illness, and significant economic damage have aroused national concern. These dramatic occurrences, however, merely highlight a more generalized condition which is resulting from the expanding industrial technology and urbanization of our Nation.

The Association of State and Territorial Health Officers, at its last annual meeting in November 1953, stated that it was impressed by the evidence of the increasing significance of air pollution as a public-health problem, especially in densely populated industrial areas. They further stated that a critical appraisal of the nature and extent of effects arising in population groups subjected to various atmospheric conditions is needed in order to (a) recognize important health problems, (b) plan and conduct research and studies on atmospheric pollution in relation to health and well-being, and (c) determine the kind and

magnitude of laboratory and field investigations required to resolve atmospheric pollution problems.

In addition to the effects on health, the economic and nuisance aspects of air pollution are becoming increasingly serious throughout the country. Corrosion of structural metals, discoloration of paint, deterioration of tires and other rubber goods, soiling of buildings and wearing apparel, reduced flight and ground visibility, damage to foliage and crops, and devaluation of real property caused by substances, fuel, mineral and organic, wasted into the air, contributed to a staggering total economic loss.

The ultimate correction of conditions which now result in excessive air pollution depends upon successful operation of local or areawide control measures. Expansion of research to define the extent and nature of air pollution, to assess health and related economic damage, and to develop practical remedial measures is a logical prerequisite and complement to the establishment of local abatement programs. The number and type of requests for technical assistance received by this Department indicate that most cities recognize that they lack the necessary technical information upon which to base satisfactory community air pollution control programs, and that the development of that information is beyond their individual resources.

Insofar as the health aspects of air pollution are concerned, it should be noted that the broad authority for research and technical assistance contained in section 301 and other provisions of the Public Health Service Act authorizes many of the activities that the new section 802, which the amendment proposes to add to S. 2938, would authorize. Under this existing authority the Public Health Service has for several years been engaged in air pollution research of a limited nature. In response to requests from local and State agencies and industrial organizations, we have attempted within available resources to furnish technical advice on some of the most urgent air pollution problems. Of necessity, such activities, however, have been sporadic and not commensurate with the scope and complexity of these problems.

The comprehensive studies which the Public Health Service has made in connection with such acute episodes as Donora, Pa., have served to emphasize the very complex nature of the problem. A limited air-sampling project now being carried on through the new Robert A. Taft Sanitary Engineering Center of the Public Health Service at Cincinnati, Ohio, is illustrative of the kind of investigation and study which is so greatly needed in this field. For the past several months, air sampling has been conducted through the cooperation of local agencies in 23 areas scattered throughout the United States and Alaska. Samples analyzed in the center are providing basic information on types of pollution typical of areas which differ widely as to climate, topography, meteorology, industrial activities, population density, and municipal sanitation practices. It is providing some information also on the regional and national impact of a rapidly increasing number and size of local sources of airborne pollutants. The current program is designed to provide basic data on which to plan and carry out more intensive studies where such are found to be needed.

While we agree that an overall comprehensive approach to air pollution research is desirable and that any expansion of research activities in this field should be centralized in this Department, we fully recognize that the many different phases of an effective air pollution research program which we have mentioned embrace the interests of a number of different Federal agencies. In addition to those agencies specified in the proposed amendment, the Departments of Commerce, Agriculture, and the Interior are concerned with economic effects of air pollution, including the effects on animals and crops, the hazards created by reduced visibility around airports, and the conservation or recovery of materials being dissipated into the atmosphere.

If given the responsibilities which the amendment proposes, this Department would fully utilize and contract for the available facilities and assistance of other interested Federal agencies, and State or local public agencies, educational institutions, and nonprofit organizations, as would be authorized by the amendment. We would wish to establish also an interagency technical advisory committee in furtherance of comprehensive planning and cooperative action for solution of the air-pollution problem.

With respect to the desirability of the authorization of \$5 million for air pollution research, as proposed in the amendment, we note that no time limit is specified for the appropriation or expenditure of this sum. If it is intended that this sum be expended promptly, we would regard it as substantially greater than could be justified in the light of overall appropriations levels for this Depart-

ment and the Public Health Service. If, on the other hand, it is intended that this sum be expended over a long period of years, the dollar amount specified becomes of much less significance (except as a limitation) and bears very little relation to desirable appropriation levels at any given time in the future. In any case, the question of how much Federal money should be made available for this purpose in any particular fiscal year is one that must be weighed along with the Government's other objectives for that year and in the light of the whole budgetary situation at that time. We would therefore think it preferable to omit from the proposed amendment any specific indication of the amount authorized to be appropriated.

The amendment would provide also corollary programs of financial assistance to business enterprises and tax-amortization benefits to stimulate the installation of the facilities, devices, and processes required for pollution abatement. Since these programs would be under the respective jurisdictions of the Housing and Home Finance Administrator and the Secretary of the Treasury, we defer to their views as to the desirability of these portions of the proposed amendment. We in this Department have no basis for an informed opinion as to whether lack of credit on reasonable terms is an important contributing factor to the slow rate of progress being made on the part of municipalities and industries in making capital expenditures for pollution-abatement equipment and facilities, or as to whether a Federal loan program would be necessary or desirable, assuming lack of credit to be an important factor. As to the tax-amortization provisions of the bill, we understand that the Treasury Department is now studying the whole problem of tax incentives and we would certainly concur in that Department's view that action on this feature of the amendment be deferred until completion of those studies.

In summary, this Department is in sympathy with the objectives of the amendment and is in accord with the proposal for an integrated program of research into the problems of air-pollution prevention and control. In view of the primary interest of other departments and agencies in certain provisions of the amendment, our specific recommendations are restricted to those provisions for which we would be responsible.

The Bureau of the Budget advises that it perceives no objection to the submission of this report to your committee.

Sincerely yours,

OVETA CULP HOBBY,
Secretary.

STATEMENT OF MARK D. HOLLIS, PUBLIC HEALTH SERVICE, DEPARTMENT OF HEALTH,
EDUCATION, AND WELFARE

Mr. Chairman, my name is Mark D. Hollis. I am the Assistant Surgeon General, Chief Sanitary Engineer, Public Health Service of the Department of Health, Education, and Welfare.

Mr. Chairman, a few days ago our Department received a request for a report on this proposed amendment to the Housing bill (S. 2938). This report, outlining the Department's views on the measure, is being drafted and every effort will be made to clear the document for submission to your committee at the earliest practicable time. There have been some preliminary discussions with the Secretary of our Department on the problems of community air pollution, and I know that she is greatly interested in the subject and is in sympathy with the objectives of working out practical remedial measures.

Here with me, Mr. Chairman, is Dr. Leslie A. Chambers, director of research at our new Robert A. Taft Sanitary Engineering Center in Cincinnati. Dr. Chambers is the official directly concerned with the community air pollution programs of the Public Health Service. We are here this morning to discuss the general problems of community air pollution as we see them and to answer such technical questions as your committee may wish to ask. To conserve the committee's time I would suggest, Mr. Chairman, that Dr. Chambers make a brief statement at this time.

STATEMENT OF DR. LESLIE A. CHAMBERS, PUBLIC HEALTH SERVICE, DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE

Mr. Chairman, my name is Leslie A. Chambers, and I am Director of Research at the Robert A. Taft Sanitary Engineering Center of the Public Health Service, Department of Health, Education, and Welfare.

In this, and in positions held previously, I have had responsibility for conducting and directing research and investigation in the field of community air pollution.

Each person on earth inhales about 50 pounds of air daily—a larger intake of material than all of the food we eat and the water we drink. Pollution of the air is proportional to the size of populations and complexity of human activity, and can therefore be expected to be a problem of increasing magnitude.

Already its economic and nuisance aspects have become serious in a great many of our cities. Corrosion of structural metals, discoloration of paint, deterioration of tires, soiling of buildings and wearing apparel, reduced visibility, damage to foliage and devaluation of real property caused by substances in the air contribute to a staggering total economic loss annually. Various governmental and municipal estimates have placed the yearly loss at about \$1,500 million. Three independent estimates have indicated the cost of polluted air in Chicago at approximately \$20 per person per year. Other studies have shown the annual loss in Pittsburgh to be \$10 million; in Cincinnati, \$8 million; and in Cleveland, \$8 million.

Data collected by the Stanford Research Institute from the 15 largest cities in the Nation indicate the direct loss to specific businesses and structures. Twenty large department stores showed annual losses of \$20,000 to \$50,000 each; 10 hospitals indicate an annual outlay of from \$4,000 to \$20,000 each; 30 hotels encountered losses of \$9,000 to \$25,000 each from smoke, soot, and contaminated air; the annual loss for 35 large office buildings amounted to \$11,000 to \$35,000 per building.

With increasing frequency, evidences of obvious damage to the health and well-being of populations are appearing. These episodes range from eye smarting and mild nausea as experienced frequently in Los Angeles, Louisville, and other cities, to acute bronchial or pulmonary spasm and quick death as at Donora, Pa. There are evidences that the effects of long exposure to less obvious amounts of air pollutants may have serious health consequences.

Pollutants exist in the atmosphere in a variety of physical forms—solid particles, crystals, vapors, droplets, gases, spores, pollen grains, bacteria, etc. The substances involved include all of the chemical compositions known to occur naturally or to be produced artificially.

While in the air many of these substances can combine with others or be acted upon by sunlight and atmospheric gases to form new chemicals. These, in certain instances, may be more damaging than the original wastes thrown into the air.

Additionally there is experimental evidence that certain combinations of substances in air produce profound physiological effects in man, whereas their presence singly causes little or no response. Thus the understanding of pollutional effects on health, and probably also on property damage requires consideration of the effects of the total complex mixture, as well as the individual components.

Pollution of air and its control is in many respects analogous with water pollution and its regulation. Pollution becomes acutely evident where dispersal conditions are not adequate for rapid dilution of wastes to low levels. It is therefore essential that meteorological phenomena be included in any program of air pollution investigation. Movements of air, available dispersion rates, local tendencies toward stratification of the atmosphere at low levels, and the general capacity of a local air supply for self-purification can be utilized, in selection of plant sites and location of industrial activities to reduce the probability of acute air pollution.

Since air is a commodity which moves freely from place to place, control of its quality presents to local communities many of the same problems they have encountered in control of water quality. Many pollutants arise locally and can be controlled at the source; others arise at points not within the jurisdiction of local authority. It appears to be well beyond the capabilities of municipalities to determine what part of the air contamination originates within jurisdictional limits of the cities. This fact makes the control of the contributions of local activities exceedingly difficult. To an increasing degree air pollution is becoming a regional, and often an interstate, problem.

The Public Health Service receives a large number of requests for technical assistance respecting air pollution. With few exceptions these originate within municipal authorities. In a number of municipalities effective smoke-abatement programs have been established; in a few of these more or less rigorous study

of the total air-pollution problem has been sponsored through community action. But the lack of technical information and investigative tools for handling so complex a problem has usually hindered these efforts seriously.

Contributions from local industries within the community can, of course, be controlled, or stopped. Abatement measures often invoke a considerable cost to industry in the form of process changes or equipment installation and construction. In many plants such costs run into millions of dollars and represent investments from which no dollar profit can be expected.

The Public Health Service has a responsibility in the field of air pollution as it has in any matter having so important an impact on the public health. Our program has included important work related to specific air pollutants affecting industrial workers, and the kinds of air pollution arising from some industrial activities. From time to time it has included intensive investigation of acute air-pollution episodes such as those at Donora, Pa. The Service has also maintained a technical advisory and consultative relationship with State and municipal control agencies respecting local problems. Air pollution in the Detroit-Windsor area of the international boundary has been under cooperative investigation for the past 3 years. This study is coordinated by the Public Health Service under reference from the State Department.

Since July 1953, a nationwide network of air-sampling stations has been established by the Robert A. Taft Sanitary Engineering Center. As you know, Mr. Chairman, this new research center at Cincinnati will devote its full energies to environmental health problems such as community air pollution. The air of 23 municipal areas, scattered throughout the United States and Alaska, is being sampled on a regular schedule by means which collect the solid and liquid particles. Samples are analyzed at the laboratory in Cincinnati and the data are assembled for correlation with available local data on meteorology, industrial activity, and evidences of health, or economic importance. This program has several important and unique features:

(a) It is providing for the first time a simultaneous comparison of many types of pollutional loading in local areas differing widely in climate, topography, meteorology, kinds and magnitudes of industrial activity, population density, and municipal sanitation practices.

(b) It is providing data on the regional and national impact of the rapidly increasing number and size of local sources of airborne materials.

(c) It is providing, for the first time, data on the nationwide base levels of airborne dusts and other materials arising primarily from natural processes.

(d) It is exploiting in a limited way the network of associated health agencies, academic institutions, and industrial organizations available to the Public Health Service for cooperative effort. All sampling stations are operated voluntarily by local groups. Incidentally, the enthusiasm associated with the cooperation reflects the acute awareness of the air pollution problem at the local level.

The current limited program is designed to provide basic data on which to plan and carry out more rigorous, intensive studies where such are found to be needed.

We propose two principal lines of research and investigation:

(a) Studies to define the extent and nature of air pollution and to assess the damage it is causing.

(b) Studies to determine what can be done to abate or control air pollution.

Guidance of the research program will require mobilization of the best technical competence. It is proposed that an advisory board composed of experienced persons from municipal, State, and Federal agencies and departments, together with consultants from pertinent scientific disciplines, and from major industrial groups, be set up to provide balanced research policy guidance. This job will require all the skill and resources which can be mobilized.

TREASURY DEPARTMENT,
Washington 25, April 13, 1954.

HON. HOMER E. CAPEHART,
*Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.*

MY DEAR MR. CHAIRMAN: Reference is made to your letter of April 3, 1954, requesting this Department's views on the amendment you intend to propose to the bill S. 2938 to aid in the provision and improvement of housing, the elimination and prevention of slums, and the conservation and development of urban communities.

One of the provisions of the proposed amendment to S. 2938 would add a new section 124 (C) to the Internal Revenue Code, to provide 5-year amortization for air pollution devices which have been certified by the Secretary of Health, Education, and Welfare as being in aid of the collection at the source or the prevention or elimination of atmospheric pollutants and contaminants.

The purpose of the proposed amendment is to encourage smoke elimination and the prevention of air pollution by granting accelerated tax amortization for expenditures on treatment works. The Department recognizes that under certain circumstances preferential tax treatment can have important incentive effects. It believes, however, that the use of the tax system for restricted non-revenue purposes should be avoided for it frequently proves to be a costly and inefficient form of public subsidy. In addition, since special tax concessions can rarely be withdrawn, they tend to be cumulative and explain much of the unnecessary complexity of the present tax structure.

It is the view of the Department that the need for special amortization of the kind contemplated by the proposed amendment to S. 2938 will be substantially curtailed when the current tax revision bill, H. R. 8300, becomes law. That bill provides for the liberalization of depreciation, both with respect to the estimate of useful life of property and the method of allocating the depreciable costs over the years of service. Taxpayers, for example, will be permitted to employ a declining-balance method of depreciation, using a rate not in excess of twice the straight-line rate. This method will provide considerably larger depreciation allowances in the earlier years of the life of the property than those resulting from existing depreciation procedures. It will generally permit approximately 40 percent of the cost of an asset to be written off in the first quarter of its service life and two-thirds in the first half of its service life.

The possibility of special legislation to provide accelerated amortization for capital expenditures on antipollution devices along the lines contemplated by the proposed amendment to S. 2938 is raised by several bills now pending before the Committee on Ways and Means which we are reviewing. If it is concluded that legislation would be appropriate in this area, it is the Department's view that it should be developed systematically to deal with various kinds of pollution, including water pollution, and should incorporate safeguards against bestowing unwarranted benefits upon individual taxpayers.

Pending the conclusion of our study of the bills now before the Committee on Ways and Means, the Department is opposed to incorporating in the pending Housing Act of 1954 an amendment to the Internal Revenue Code to provide special amortization for certain air-pollution-prevention facilities.

Another provision of the proposed amendment would authorize the Housing and Home Finance Administrator to make loans, up to \$50 million outstanding at any one time, to any business enterprise to aid in financing devices for reducing smoke and air pollution. The Treasury Department has no evidence that Federal financial assistance is necessary in this field. In view of the desirability of bringing the budget into balance, it is recommended that this authority not be enacted until need for it has been clearly demonstrated.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your committee.

Sincerely yours,

M. B. FOLSOM,
Acting Secretary of the Treasury.

The CHAIRMAN. We will hold the record open until Monday. We are going to adjourn all housing hearings, now, and we will start writing up the housing bill the early part of May.

The next meeting of this committee will be at 10 o'clock on Monday, at which time we will open our investigation into the housing situation which you have been reading about in the newspapers.

Our first witnesses will be Mr. Cole and Mr. Hollyday and Mr. Powell. The primary purpose of that meeting, on Monday, is to find out whether or not we ought to, in some way, amend the present housing bill that we are just closing the hearings on to eliminate some of the loopholes that seem to be developing in respect to the troubles that have been brought out by the administration, and which you have been reading about in the newspapers.

We will adjourn. Thank you very much.

(Whereupon, at 11:30 a. m., the committee adjourned.)

(The following letters, telegrams, and statements were received for the record:)

AMERICAN MUNICIPAL ASSOCIATION,
Washington, D. C., April 13, 1954.

Re Air Pollution

Hon. HOMER E. CAPEHART,

*Chairman, Senate Committee on Banking and Currency,
Senate Office Building, Washington 25, D. C.*

DEAR SENATOR CAPEHART: On behalf of the 12,000 member municipalities in 44 States who comprise this association; I should like to vigorously urge the adoption of the Capehart-Kuchel amendment to the Housing Act of 1954 relating to air pollution.

During the next 3 days your committee will hear compelling testimony from city officials who are coming to Washington from places as far apart as Los Angeles, Calif., and Providence, R. I., in which testimony they will point out the valid, cogent, urgent reasons why such legislation will be adopted. It is not for us to repeat these arguments.

We should like to point out three things, at this time:

(1) Our policy resolution on this subject was adopted by unanimous agreement at the second largest meeting of municipal officials ever held in the United States. This policy urges the Congress to pass legislation of the type and character embodied in the aforesaid amendment.

(2) Irrefutable evidence exists to prove that polluted air damages homes, deteriorates properties, reduces neighborhood values, and contributes to slum-like conditions. This will be shown by the testimony of the Deputy Surgeon General of the United States, when he presents testimony on behalf of the United States Public Health Service.

(3) The American Cancer Society, meeting in New York yesterday, said that "deaths from lung cancer have increased 500 percent in the past 20 years" and that their scientific " * * * data link air pollution to lung cancer." This notice was carried by the Associated Press and printed on the second page, second section, of yesterday's Washington Post-Times Herald.

Polluted air is no respecter of State lines. It is, therefore, a subject fit for consideration by the Federal Government which alone can handle interstate problems efficiently.

It is our considered opinion that this amendment represents Federal-State-local cooperation at its best. It is the type of legislation which is helpful to local government with a spirit of partnership in solving a common problem.

Yours sincerely,

RANDY HASKELL HAMILTON,
Director of the Washington Office.

BOARD OF SUPERVISORS OF THE COUNTY OF BUTTE, STATE OF CALIFORNIA

Whereas there is pending in the United States Senate two bills which, if passed, will greatly aid in the control of air pollution, and

Whereas said bills are S. 2938 (Capehart) and S. 3115 (Kuchel), and

Whereas the Board of Supervisors of the County of Butte are interested in anything that will facilitate the prevention and control of air pollution: Now, therefore, be it

Resolved by the Board of Supervisors of the County of Butte, State of California, That said board go on record as favoring the adoption of the United States bill 2938 sponsored by Senator Capehart and United States Senate bill 3115 sponsored by Senator Kuchel and that a copy of this resolution be sent to Senator Capehart, Senator Kuchel, Senator Knowland, and Senator Millikin, and Congressman Clair Engle.

The foregoing resolution was introduced by Supervisor Lobdell, who moved its adoption, seconded by Supervisor Parker, and said resolution was passed on roll call by the following vote, this 5th day of April 1954:

Ayes: Supervisors Lobdell, Parker, Pellicciotti, Squires and Chairman Polk.
 Noes: None.
 Absent: None.

T. H. POLK,
Chairman of the Board of Supervisors of the County of Butte, State of California.

Attest:

HARRIETT JAMES,
County Clerk and Ex Officio Clerk of the Board of Supervisors.
 By GENEVIEVE VINES,
Deputy.

LEAGUE OF CALIFORNIA CITIES,
 LOS ANGELES COUNTY DIVISION,
 Whittier, Calif., April 5, 1954.

HON. THOMAS H. KUCHEL,
United States Senator, United States Senate Building, Washington, D. C.

DEAR SENATOR KUCHEL: It is a pleasure to forward to you herewith a copy of a resolution unanimously adopted by the Los Angeles County Division of the League of California Cities meeting in regular session in Pasadena, April 1, 1954.

This resolution represents the thinking and the wishes of the representatives of 45 cities in the southern California area and your favorable consideration will be gratefully appreciated by the citizens of each and every one of these communities that are endeavoring to meet the smog problem.

Respectfully,

DEANE SEEGER, *Secretary.*

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE LOS ANGELES COUNTY DIVISION OF THE LEAGUE OF CALIFORNIA CITIES

Whereas, there is pending before the Congress of the United States S. 3115, which would provide for a 60-month rapid amortization for tax purposes of facilities constructed by private industry for the control of air pollution; and

Whereas, there is also pending before the Congress of the United States S. 2938, which in addition to the accelerated writeoff provision, also would authorize insurance of loans to corporations or individuals to construct or install air pollution control facilities and an appropriation for research in the field of air pollution control; and

Whereas air pollution retards the growth and development of cities and creates blighted areas and slums within cities and is injurious to health and to the well-being of the community; and

Whereas the cities of Los Angeles County, Calif., members of this division of the League of California Cities, are in agreement that it is necessary that construction of air pollution control facilities and equipment be encouraged in every reasonable and possible way; and

Whereas the severity of the problem of air pollution in this county is so great that an air pollution control district was activated and organized in 1947 to combat the menace of air pollution in the county of Los Angeles and since that date has been and now is actively engaged in that work: Now, therefore, be it

Resolved, That the board of directors of the Los Angeles County division of the League of California Cities respectfully petition the Congress of the United States to enact S. 2938 and S. 3115, and that the Secretary transmit a copy of this resolution to Senator Capehart and a copy to Senator Kuchel, and a copy to each of the Senators from this State and to each of the Representatives in Congress from this county.

WARREN M. DORN,
*President, Los Angeles County Division,
 League of California Cities.*

Attest:

DEANE SEEGER,
*Secretary, Los Angeles County Division,
 League of California Cities.*

CAJON VALLEY UNION SCHOOL DISTRICT, CUYAMACA SCHOOL,
El Cajon, Calif., April 2, 1954.

Senator CAPEHART,
241 Senate Office Building, Washington 25, D. C.

DEAR SENATOR CAPEHART: The Cuyamaca School PTA of El Cajon, Calif., voted unanimously in favor of Senator Homer E. Capehart's amendment to the administration's Housing Act of 1954, which would greatly facilitate the prevention and control of air pollution.

We urge your support of the above amendment.

Yours very truly,

MAMIE BRIGHTWELL,
Legislative Chairman of Cuyamaca PTA.

CITY OF CHICO, CALIF., March 25, 1954.

Hon. Senator HOMER E. CAPEHART,
Chairman, Senate Currency and Banking Committee,
241 Senate Office Building, Washington, D. C.

DEAR SENATOR CAPEHART: The city council and I join in congratulating you on your sponsorship of the proposed amendment to the administration's Housing Act of 1954. We feel that the provisions of this bill, if enacted, would greatly facilitate the prevention and control of air pollution in the State of California and more especially in our own area.

The northern part of California is currently experiencing the early symptoms of the population boom which has previously caused so many problems in southern California. We are most desirous of preventing any occurrence in northern California of the smog problem which currently is devastating southern California. We feel that your bill presents the best preventive measures yet proposed and wish to heartily endorse your suggested program.

We are writing Senator Kuchel and Senator Knowland of our interest in this matter and our desire that they give you full support.

Yours very truly,

ROBERT O. BAILEY, City Manager.

CITY OF CINCINNATI,
DEPARTMENT OF SAFETY,
Cincinnati 2, Ohio, March 26, 1954.

Hon. HOMER E. CAPEHART,
Chairman, Senate Banking and Currency Committee,
241 Senate Office Building, Washington 25, D. C.

DEAR SENATOR CAPEHART: Mr. Randy Haskell Hamilton, director of the Washington office of the American Municipal Association, has just issued a bulletin informing us that you will introduce and sponsor an amendment to the administration's Housing Act of 1954 to provide for the rapid amortization of air-pollution control facilities built in conformance with State and local laws. The bulletin reports that this amendment will be set up as an FHA or FNMA program to insure loans to corporations or individuals to construct such facilities.

We are strongly in favor of the passage of the bill because we believe it will accomplish two things: (1) It will encourage industry to install air-pollution abatement equipment which is often very costly and on which industry, for the most part, recovers nothing in the way of lower costs of operation, and (2) it will encourage cities and other governmental units to enact legislation to reduce air pollution for the betterment of the community.

Cincinnati is a core city with a population of over half million people, in the midst of a metropolitan area having a million population. Cincinnati has an active air-pollution-abatement program, whereas the communities surrounding it have not established such programs as of this date.

We earnestly recommend passage of the amendment as it will be of great value to the city in its efforts to eliminate air pollution.

Very sincerely yours,

ORIS E. HAMILTON, Director.

OFFICE OF MAYOR,
Clermont, Fla., April 8, 1954.

Senator HOMER E. CAPEHART,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR CAPEHART: As mayor of Clermont I will give the support of the city of Clermont to your proposed legislation to help municipalities overcome the problem of air pollution by: (1) Providing rapid tax amortization for air-pollution control facilities, and (2) providing an FHA or FNMA insurance program for loans to construct such facilities. The bill will also authorize a large appropriation for increased research into air-pollution causes and cures.

Very truly yours,

WILLIAM W. BOYD, Mayor.

CITY OF CHICAGO,
DEPARTMENT OF AIR POLLUTION CONTROL,
Chicago 2, Ill., March 23, 1954.

Hon. Senator HOMER E. CAPEHART,
241 Senate Office Building, Washington, D. C.

DEAR SIR: Your proposed amendment to the Administration Act of 1954 to provide for the rapid amortization of air-pollution-control facilities is of very great interest.

The idea and thought are sound.

Our experience in dealing with industry is as follows: That the first question raised by individuals faced with the problem of complying with air-pollution-control requirements is the cost of the equipment. The second protest is raised on the ground that they are forced to operate at an unfair cost basis in their respective competitive markets because of this equipment and will leave the city.

Enclosed with this letter are copies of a report prepared by this department to show that there are factors involved in air-pollution control other than smoking chimneys.

This department would appreciate receiving a copy of the proposed amendment for close study and comment. The wording of this amendment will require careful study.

We will be glad to assist in helping to correct the misunderstanding that exists about air-pollution-control problems.

Yours truly,

THOMAS H. CAREY, Director.

DUSTFALL TREND IN CHICAGO

Since 1934, the department of air-pollution control has maintained 25 dustfall jars located within the city of Chicago. The value of these statistics has been sharply questioned by some of the press from time to time. The department has been accused of adulterated dustfall figures. These gentlemen did not know that this department does not make the analysis of the contents of the dustfall jars, but only services and maintains the 25 jars and stands. A public-spirited organization, Armour Research Foundation, since August 1946 has donated the necessary analytical chemical laboratory services to the city. Prior to this, the chemical laboratory of the Peoples Gas Light & Coke Co. performed this service, free of charge, from 1937 to July 1946. The city has pioneered in smoke-prevention work. The value of dustfall figures was stoutly defended by the late Frank Chambers, chief smoke inspector for the city of Chicago with an international recognition.

Now, a new technique has been developed for interpreting these figures, by Edmund Koscinech, an engineer in the department of air-pollution control, headed by Thomas H. Carey, director. This new approach is based on averages rather than individual years. The trend indicated is based on a 16-year period of 1938 to 1953; wherein 12 months—25 jars each month—16 years, means approximately 4,800 samples were averaged. Each month has 400 samples. The new method of using the overlapping averages, indicates a definite trend, which was not possible with the individual year study and now reveals the following significant items about Chicago dustfall for the period January 1938 to December 1953.

1. Chicago's average total dustfall per month is steadily diminishing. This

has held consistently for 9 definite months. They are May, June, July, August, September, October, November, and December.

2. Average total dustfall for January, February, and March is practically a constant value and appears to be on the increase in the current period 1950-53 figures.

3. May's average was the dirtiest of the year, for the period 1938 to 1953.

4. August is the cleanest month of the year, for the same period.

5. August and July have made the largest reduction in total dustfall.

6. For possibly the same reason, the months of September, October, November, and December have recorded a definite reduction in average total dustfall.

7. There are indications of four distinct seasons of dustfall. These do not correspond with winter, spring, summer, and fall. They are:

(a) January, February, and March.

(b) April, May, and June.

(c) July and August.

(d) September, October, November, and December.

8. There is a marked difference between the adjoining months of December and January, when you would expect them to be closest, because of the heating requirements. The 16 year average is: December, 58.31 tons per square mile per month; January, 77.52.

9. Compare item 8 with that of May's 80.58 and August's average 53.67.

10. The combustible portion of the total dust fall is steadily diminishing in this 16-year period and exhibit signs of leveling off, reaching a possible "necessary evil" minimum amount.

11. The ratio of nonwater soluble to water-soluble constituents of the average total dustfall that fell in Chicago during the period 1950-53 was definitely different than that of the period 1938-42.

12. Further study is necessary to determine the causes of the change. Armour Research Foundation, Peoples Gas Light & Coke Co., Commonwealth Edison Co., and Standard Oil Co. of Indiana have agreed to cooperate in this project.

13. The following condensed table portrays the significant trend of Chicago's dustfall. (See attached table, p. 3.)

14. What does the figure average dustfall mean? It means that a certain amount of dirt settled in the city of Chicago. At the same time it raises the question "dirtier than what." The city has no record of what constitutes dustfall in a rural area. We do not know what portion of this dust is not man made. The following chart depicts the factors in air pollution. Refer to chart on page 6.

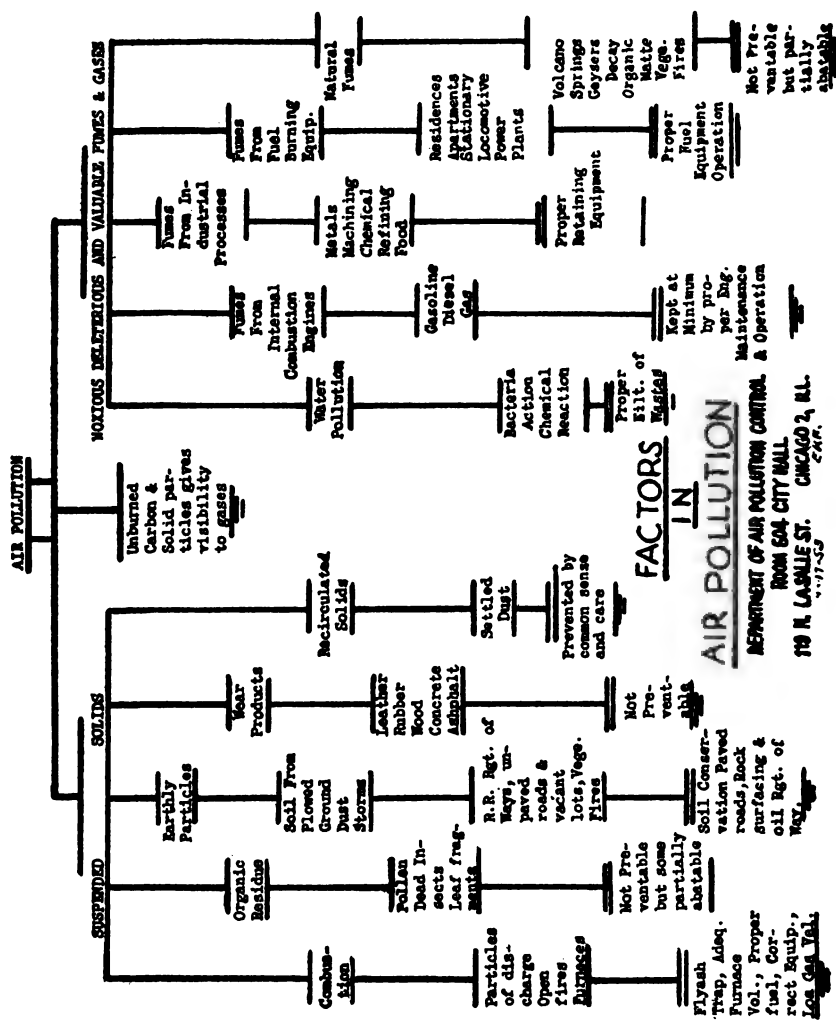
15. Therefore a study is being made in an attempt to establish nature's dust. For the period 1938-53, two dustfall jar locations have recorded consistently low values of total dustfall. The two were averaged together and exhibit the surprising information, that January, February, November, and December have consistent lower amounts of combustible dust than during the rest of the year.

It is evident, therefore that there are other greater sources of combustible dust than smoking chimneys in these two residential areas. These sources could be organic residue, earthly particles, fumes from internal combustion engines, and increased human activity in the summer months, in these respective areas.

Trends in Chicago's dust fall, 1938-53—City average tons per square mile per month

	Average							1953
	1938 to 1953	1938 to 1942	1940 to 1944	1943 to 1947	1945 to 1949	1948 to 1952	1950 to 1953	
Total dust fall.....	67	68	71	76	66	59	57	53.6
Noncarbon material.....	26	25	27	32	27	22	20	18
Combustible material.....	15	18	20	19	13	10	9	8
Nonwater soluble.....	42	43	47	51	40	32	29	26
Water soluble.....	25	25	24	25	26	27	28	28

Figures are in closest whole numbers.



FACTORS IN

AIR POLLUTION

AMENDMENT OF AIR POLLUTION CONTROL

ROOM 604 CITY HALL

110 N. LA SALLE ST. CHICAGO 2, ILL.

1957-58

AIR POLLUTION PREVENTION AMENDMENT

1281

CITY OF CULVER CITY, CALIF., April 1, 1954.

HON. HOMER E. CAPEHART,
United States Senator,
241 Senate Building, Washington 25, D. C.

DEAR SENATOR CAPEHART: On behalf of our city government and the surrounding area, this is to express our interest in and appreciation of your efforts to assist in the solution of the air pollution problem as evidenced by your Senate bill No. 2938.

The matter is one of transcendent importance here and merits the aggressive aid of the Federal Government. It is hard to realize the detrimental effect on local development, particularly home construction, by reason of this menace.

We feel sure that if your bill is enacted it will be a very great contributing factor in solving this problem. We are hopeful that this measure may be adopted at an early date, and we are contacting our own Senators and Representatives urging their support of this important legislation.

Very truly yours,

M. TELLEFSON,
City Attorney.

CULVER CITY CHAMBER OF COMMERCE,
Culver City, Calif., April 8, 1954.

HON. SENATOR HOMER E. CAPEHART,
United States Senator,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR CAPEHART: I am writing to you in behalf of the Culver City Chamber of Commerce in reference to your expressed interest in the air pollution problem evidenced in your Senate bill 2938.

This matter is one of great importance to the people of this community and one in which Federal aid is most needed.

A great many problems facing the citizens, especially with regard to their health, is contingent on the passage of this bill. It is our feeling that the enactment of your legislation will have a great deal of influence in solving this problem. We are hopeful that your measures will be adopted when it comes to hearing on April 13 or 14.

We are contacting our California Senators and Representatives urging their support on this important legislation.

With all best wishes, I remain,

Very truly yours,

GLEN H. PRESTON.

CITY OF DAYTON, OHIO,
DEPARTMENT OF SERVICE AND BUILDINGS,
March 30, 1954.

SENATOR HOMER E. CAPEHART,
241 Senate Office Building,
Washington, D. C.

DEAR SENATOR CAPEHART: Uncontrolled air pollution is a danger that affects everyone. Smoke, acids, fumes or dusts have descended on most areas of our Nation at different times. These pollutants have not only been a menace to public health, but have also damaged crops and real-estate values. It is estimated that the annual national bill for the repair of this damage is \$500 million. To combat the adverse effects of air pollution most cities have passed some kind of an ordinance.

Such an ordinance was passed in Dayton in August 1950. Since that time more than \$2 million has been spent voluntarily by industry in Dayton for the installation of air-pollution equipment. This large expenditure for equipment was the result of a successful campaign of "education and cooperation" fostered by the municipal officials.

Many air-pollution problems have not been resolved due to the financial inability of some companies to provide the relatively large sums which the cost of air-pollution equipment involves. In most cases the violators would purchase the equipment necessary to reduce or eliminate their air pollution if your amendment became law.

For an ordinance to have lasting success it must be fair not only to those it protects but also those it restricts. Since industry is required to control air pollution for the benefit of everyone it is logical that industry should not be penalized in acquiring the means to effect this control.

Respectfully yours,

HERBERT W. STARICK, *City Manager.*

CITY OF EL CAJON,
San Diego County, Calif., April 7, 1954.

Senator THOMAS H. KUCHEL,
*Senate Office Building,
Washington, D. C.*

DEAR SENATOR KUCHEL: We are enclosing certified copy of resolution No. 1816, supporting an amendment to the Housing Act of 1954 to provide for control of air pollution.

Yours truly,

DELIGHT V. SWAIN, *City Clerk.*

**RESOLUTION No. 1816—SUPPORTING AN AMENDMENT TO THE HOUSING ACT OF 1954
TO PROVIDE FOR CONTROL OF AIR POLLUTION**

Whereas Senator Homer E. Capehart, chairman of the Senate Banking and Currency Committee, has endorsed an amendment to the Housing Act of 1954 which would, if enacted, greatly facilitate the prevention and control of air pollution;

Whereas the city of El Cajon is affected by increasing air pollution causing a serious blight on the development of the city through the retarding of proper subdivision development and home building;

Whereas the air pollution adversely affects the health of the citizens of the city of El Cajon as well as their business and agriculture: Now, therefore, be it

Resolved by the City Council of the City of El Cajon as follows:

1. That the City Council of the City of El Cajon does hereby urge the Senate Banking and Currency Committee to amend the Housing Act of 1954 to provide for the following:

(a) The rapid amortization of air pollution control facilities built in conformance with State or local law.

(b) A program to insure loans to corporations or individuals to construct facilities.

(c) An appropriation for research in the field of air-pollution control.

2. The city clerk of the city of El Cajon be and she is hereby directed to furnish one certified copy of this resolution to Senator Capehart at 241 Senate Office Building, Washington 25, D. C.

3. That certified copies of this resolution be sent to Senators Knowland and Kuchel in their capacities as Senate representatives of the State of California and to Randy H. Hamilton, care of American Municipal Association, 323 Transportation Building, Washington 6, D. C.

Passed and adopted by the city council of the city of El Cajon, Calif., at a regular meeting held this 5th day of April 1954, by the following vote, to wit: "Ayes," Councilmen Crandall, Steele, Hull, Fleming; "Nays," none; absent, Councilman Hunt.

NELSON M. FLEMING,

Mayor and President of the City Council of the City of El Cajon.

Attest:

DELIGHT V. SWAIN, *City Clerk.*

I hereby certify that the above and foregoing is a full and true copy of resolution No. 1816 of the resolutions of the city of El Cajon, Calif., as adopted by the city council of said city on the 5th day of April 1954.

[SEAL]

DELIGHT V. SWAIN,
City Clerk of the City of El Cajon.

CITY OF EL CAJON,
San Diego County, Calif., April 7, 1954.

Senator THOMAS H. KUCHEL,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR KUCHEL: We are enclosing certified copy of resolution No. 1817, urging approval of Senate bill 3115, which provides for rapid tax amortization for air-pollution control facilities built by industries in conformance with State or local law.

Yours truly,

DELIGHT V. SWAIN, *City Clerk.*

RESOLUTION No. 1817—URGING APPROVAL OF SENATE BILL No. 3115

Whereas Senator Kuchel has introduced Senate bill No. 3115, which provides for rapid tax amortization for air-pollution control facilities built by industries in conformance with State or local law;

Whereas said bill is pending before the Senate Finance Committee in connection with the Revenue Revision Act of 1954;

Whereas air-pollution control is a matter of vital concern to the citizens of the city of El Cajon as a health, business, and agriculture problem;

Whereas accelerated write-off of air-pollution control installations will enable industry to add devices which will completely abate or sharply reduce the volume of air contamination: Now, therefore, be it

Resolved by the City Council of the City of El Cajon as follows:

1. That the City Council of the City of El Cajon does hereby urge the Senate Finance Committee to approve Senate bill No. 3115 providing for rapid tax amortization for air-pollution control facilities built by industries in conformance with State or local law.

2. That the city clerk of the city of El Cajon be and she is hereby authorized and directed to send certified copies of this resolution to the following:

(a) Senator Millikin, chairman of the Senate Finance Committee;

(b) Senator Kuchel;

(c) Senator Knowland; and

(d) Mr. Randy H. Hamilton, American Municipal Association.

Passed and adopted by the City Council of the city of El Cajon, Calif., at a regular meeting held this 5th day of April 1954, by the following vote, to-wit:

Ayes—Councilmen Crandall, Steele, Hull, Fleming.

Nays—None.

Absent—Councilman Hunt.

NELSON M. FLEMING,
Mayor and President of the City Council of the city of El Cajon.

Attest:

DELIGHT V. SWAIN,
City Clerk.

I hereby certify that the above and foregoing is a full and true copy of resolution No. 1817 of the resolutions of the city of El Cajon, Calif., as adopted by the city council of said city on the 5th day of April 1954.

[SEAL]

DELIGHT V. SWAIN,
City Clerk of the City of El Cajon.

EL CAJON VALLEY CHAMBER OF COMMERCE,
El Cajon, Calif., March 31, 1954.

Subject: Air Pollution, S. 2938 (Capehart); S. 3115 (Kuchel).

Senator KUCHEL,
*Senate Office Building,
Washington 25, D. C.*

DEAR SENATOR KUCHEL: The board of directors of the El Cajon Valley Chamber of Commerce voted unanimously to ask you to approve the above indicated S. 2938 Capehart amendment to the administration's Housing Act of 1954, and Senator Kuchel's bill S. 3115 concerning air-pollution control facilities.

Sincerely yours,

JOHN B. GIBSON, *President.*

THE CITY OF EL PASO, TEXAS,
March 23, 1954.

HON. HOMER E. CAPEHART,
The United States Senate,
Washington 25, D. C.

DEAR SENATOR CAPEHART: It has come to my attention that you will introduce and sponsor an amendment to the administration's Housing Act of 1954 to provide for the rapid amortization of air-pollution control facilities built in conformance with State and/or local law and setting up a program to insure loans to corporations or individuals to construct such facilities as well as for research in the field of air pollution. While a relatively new field of local government responsibility, air pollution is one of great importance and a protection of which the public is becoming more and more aware.

Although El Paso is not known as a major industrial city we have an air-pollution problem and have made some progress in its correction but much remains to be done. As you undoubtedly know air pollution and smoke control on the part of industry is a very expensive procedure and consequently one which is much easier to attain if some incentive is attached in addition to making it a local law violation.

We are therefore extremely interested in your proposed legislation and feel that it meets a definite need. We believe that it is just and right to permit industry some financial help in this expensive air-pollution control process. Knowing that it will make our job much easier, we pledge you our support in this legislation and trust that the Congress will see fit to enact it.

Yours very truly,

FRED HERVEY, Mayor.

THE CITY OF ERIE,
Erie, Pa., March 24, 1954.

Senator HOMER E. CAPEHART,
Senate Office Building, Washington, D. C.

MY DEAR SENATOR: At the direction of the Council of the City of Erie, Pa., I herewith enclose a resolution adopted by that body, endorsing your contemplated legislation providing for the rapid amortization of equipment installed to alleviate air pollution.

Very truly yours,

EUGENE GRANET, City Clerk.

By Mr. Cannavino. Seconded by Messrs. Downing, Walczak, Flatley.

COUNCIL CHAMBERS,
Erie, Pa., March 23, 1954.

Resolved by the Council of the City of Erie, That

Whereas United States Senator Homer E. Capehart, of Indiana, has indicated that he will introduce an amendment to the Housing Act of 1954, to provide for the rapid amortization of air pollution control facilities constructed in conformity with State and/or local legislation and further provide for the insuring of loans for such purposes; and

Whereas such legislation by the United States would tend to ease the financial burden on those contemplating the installation of such pollution control equipment and would aid the city of Erie in the enforcement of air pollution regulations now in effect: Therefore be it

Resolved by the Council of the City of Erie, Pa., That they officially endorse the contemplated amendatory legislation of Senator Homer E. Capehart, and urge its passage by the Congress of the United States; and be it further

Resolved, That the city clerk be and he is hereby authorized and directed to forward copies of this resolution to Hon. Homer E. Capehart, Hon. Carroll D. Kearns, and the American Municipal Association.

March 23, 1954. City council adopt by yeas Messrs. Cannavino, Downing, Walczak, and Flatley—4. Nays, 0.

March 23, 1954. Signed by the mayor. Attested by the city clerk.

Authentic copy.

CITY OF EVANSVILLE,
COMMISSIONER OF SMOKE REGULATION,
Evansville, Ind.

SENATOR CAPEHART,
241 Senate Office Building, Washington 25, D. C.

DEAR SENATOR: The smoke regulation department of the city of Evansville, Ind., wishes wholeheartedly to endorse this amendment to control air pollution.

No better evidence is needed, of control, than the heavy tread of the city dweller to go to the suburban areas, to escape the exhaust of a city.

Yours very truly,

J. E. CLAUSHEIDE.

CITY OF GLENDALE, CALIF.,
April 6, 1954.

HON. HOMER E. CAPEHART,
241 Senate Office Building, Washington 25, D. C.

DEAR SENATOR CAPEHART: We wish to express our appreciation to you for the sponsoring of S. 2938 pertaining to air pollution.

Glendale is a beautiful residential and commercial city of 113,000 population. Our citizenry are suffering from extreme conditions of air pollution. We recognize the fact that industry is by no means entirely responsible for this pollution.

We believe that the amendment you have proposed will greatly expedite the eventual solution of this pressing problem.

Very sincerely yours,

C. E. PERKINS, *City Manager.*

CITY OF GRAND RAPIDS, MICH.,
March 24, 1954.

Senator HOMER E. CAPEHART,
241 Senate Office Building, Washington 25, D. C.

DEAR SENATOR CAPEHART: This is to inform you that I am heartily in favor of the amendment to the administration's Housing Act of 1954, which you are to introduce and sponsor, providing for the rapid amortization of air pollution control facilities built in conformance with State and/or local law.

This amendment to control air pollution should receive serious congressional attention.

Yours very truly,

PAUL GOEBEL, *Mayor.*

THE SMOKE ABATEMENT LEAGUE,
OF HAMILTON COUNTY, CINCINNATI, OHIO,
Cincinnati, March 24, 1954.

HON. HOMER E. CAPEHART,
*Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington 25, D. C.*

DEAR SENATOR CAPEHART: We have just learned from Mr. Randy Haskell Hamilton, director of the Washington office of the American Municipal Association, that you will introduce and sponsor an amendment to the administration's Housing Act of 1954 to provide for the rapid amortization of air-pollution-control facilities built in conformance with State and/or local law. We understand that this amendment will set up an FHA or FNMA program to insure loans to corporations or individuals to construct such facilities.

We are strongly in favor of the passage of this bill because we believe it will accomplish two things: (1) It will encourage industry to install air-pollution-abatement equipment which is often very costly and which industry, for the most part, recovers nothing in the way of lower costs of operation, and (2) it will encourage cities and other governmental units to enact legislation to reduce air pollution for the betterment of the community.

Cincinnati is a core city with a population of over a half million people, in the midst of a metropolitan area having a million population. Cincinnati has an active air-pollution-abatement program, whereas the communities surrounding it have not established such programs as of this date.

We are urging that an all-out effort be made in support of this amendment, as the principle embodied therein will encourage neighboring communities to enact

reasonable and effective air-pollution-abatement legislation in order that industry in their communities can take advantage of the rapid tax amortization for such equipment with the net result being beneficial to the whole metropolitan area in bringing about cleaner, more healthful air.

Very sincerely yours,

CHARLES N. HOWISON,
Executive Secretary.

THE SMOKE ABATEMENT LEAGUE,
OF HAMILTON COUNTY, CINCINNATI, OHIO,
Cincinnati, April 6, 1954.

Subject: Amendment to the administration's Housing Act of 1954 to provide for the rapid amortization of air-pollution-control facilities.

Mr. RANDY HASKELL HAMILTON,
*Director of the Washington Office, American Municipal Association,
Transportation Building, Washington 6, D. C.*

DEAR MR. HAMILTON: Concerning the amendment to the administration's Housing Act of 1954 to provide for rapid amortization of air-pollution-control facilities built in conformance with State or local law, which is being sponsored by Senator Homer E. Capehart, chairman of the Senate Banking and Currency Committee.

We wholeheartedly favor the adoption of this legislation, as we believe it will accomplish the purpose for which it was written and in addition, we believe it will encourage communities to enact reasonable ordinances and establish enforcement procedures to reduce air pollution which will bring the benefits of cleaner air to many communities which now endure unreasonable air pollution.

We believe that this legislation will encourage the installation of air-pollution-abatement equipment, which is costly and for which industries generally receive no return in the form of lower operating costs. Industries located in and adjacent to residential areas may be required to make heavy investments in nonproductive air-pollution-control equipment for neighborhood protection, and thus may be adversely affected in their competitive position in the industry, should competitive plants be located far removed from residential areas and thus not be required by local laws to install air-pollution-control equipment. Thus, it seems only reasonable and good that the installation of air-pollution-abatement equipment, costly as it is, installed for the benefit of the public, should be encouraged in every possible way.

This legislation will so encourage industry, especially during periods of high earnings. It is an established fact that smoke and other air contaminants are some of the most harmful effects on housing, and lead to a lower standard of living. Dwellings in or near heavily polluted atmospheres are usually dirty, dingy, rundown, and provide unsatisfactory living conditions, whereas in a clean atmosphere, there is a natural desire to improve houses by cleaning and painting. Efforts expended to improve housing are much more lasting and effective in industrial urban communities where air-pollution controls are enforced.

We, therefore, urge every consideration be given to the adoption of this legislation.

Sincerely yours,

CHARLES N. HOWISON,
Executive Secretary.

PS: Concerning the hearing before the Senate Banking and Currency Committee, April 14 and 15, 1954, I regret that I will be unable to attend because of the press of other commitments requiring my presence in Cincinnati at that time. I had hoped to testify for this legislation. I am also enclosing a letter from Mr. Oris E. Hamilton, safety director of the city of Cincinnati, urging the passage and adoption of the subject legislation. I had originally expected to present this testimony along with mine before the committee.

C. N. HOWISON.

CITY OF HAYWARD,
OFFICE OF THE CITY MANAGER,
Hayward, Calif., April 6, 1954.

Subject: Air pollution.

To: Senator Homer E. Capehart, Senate Office Building, Washington, D. C.

Senator HOMER E. CAPEHART: 1. We are heartened to learn of your proposal (S. 2938) to amend the 1954 Housing Act to provide rapid tax amortization and insured construction loans for air-pollution control facilities, as well as support for research in that field.

2. The San Francisco Bay area during the past 2 or 3 years has first experienced incidents which presage a smog problem. Observing the extent to which that same problem has become critical in the southern part of this State and aware of the imposing difficulties present in abatement programs, we support vigorously your proposed legislation.

JOHN R. FICKLIN, *City Manager.*

CITY HALL,
La Verne, Calif., April 8, 1954.

HON. HOMER E. CAPEHART,
Senate Office Building, Washington, D. C.

DEAR SENATOR CAPEHART: The City Council of La Verne has received from Richard Carpenter, executive director and general counsel of the League of California Cities, an urgent letter describing your amendment to the administration's Housing Act of 1954 to facilitate the prevention and control of air pollution.

The council has studied the provisions contained in the amendment and instructed me to present their specific interest and support to the amendment. In accordance with these instructions it is extremely important that their complete support in favor of the bill is known to you. The council and residents of the city are very definitely aware of the serious blight caused by air pollution and the retarding of satisfactory development of the community, from the standpoint of subdivisions and home building and its adverse effects on health, business, agriculture, and the general welfare of the city. The council wishes to convey its strongest encouragement to you in obtaining legislation for the rapid amortization of air-pollution control facilities, and FHA and FNMA program to insure loans to construct such facilities and an appropriation for research of air-pollution control.

On behalf of the council, I trust that the support of the city of La Verne will help in obtaining this most needed legislation.

Very truly yours,

JOHAN A. KRABBE,
Administrative Officer.

CITY OF LOS ANGELES,
April 12, 1954.

Senator HOMER E. CAPEHART,
Senate Office Building, Washington, D. C.

Greetings: At the meeting of the council of the city of Los Angeles held April 12, 1954, resolution was adopted that the council petition the Congress of the United States to enact Senate bill 2938 and Senate bill 3115 and I am transmitting herewith a copy of said resolution for your information.

Yours very truly,

WALTER C. PETERSON,
City Clerk.

By A. M. MORRIS,
Assistant City Clerk.

RESOLUTION

Whereas air pollution in the metropolitan area of Los Angeles is recognized as one of the most serious problems in that it retards the growth and development of our city and creates blighted areas and slums and is injurious to the health and to the well-being of our community; and

Whereas the severity of the problem of air pollution in this county is so great that an air pollution control district was activated and organized in 1947 to combat the menace of air pollution in the county of Los Angeles; and

Whereas there is pending before the Congress of the United States, Senate bill 3115 which would provide for a 60-month amortization for tax purposes of facilities constructed by private industry for the control of air pollution; and

Whereas there is also pending before the Congress of the United States, S

bill 2938 which in addition to the accelerated writeoff provision would authorize a program of loans to corporations or individuals to construct or install air pollution control facilities and an appropriation for research in the field of air pollution control; and

Whereas Mayor Norris Poulson has been invited to appear at hearings before the Banking and Currency Committee of the Senate on April 14 in support of the proposed legislation: Now, therefore, be it

Resolved, That this city council petition the Congress of the United States to enact Senate bill 2938 and Senate bill 3115, and that copies of this resolution be transmitted to Senator Capehart, Senator Knowland, Senator Kuchel, and to each of the Representatives in Congress from southern California.

Presented by Councilman Ernest E. Debs; seconded by Councilman Gordon R. Hahn.

I, Walter C. Peterson, city clerk of the city of Los Angeles, do hereby certify that the above resolution was unanimously adopted by the city council at its meeting of April 12, 1954.

WALTER C. PETERSON,
City Clerk.

By A. M. MORRIS,
Assistant City Clerk.

CITY OF LOS ANGELES,
April 1, 1954.

HON. HOMER E. CAPEHART,
*United States Senator,
241 Senate Office Building, Washington, D. C.*

MY DEAR SENATOR: It has come to my attention that you are sponsoring an amendment to the administration's Housing Act of 1954, S. 2938, concerning prevention and control of air pollution, providing for Federal legislation to encourage and assist in solving this important problem.

I am in hearty agreement with, and endorse your action, and urge approval by the Congress.

Very truly yours,

LLOYD ALDRICH, *City Engineer.*

CITY OF MERCED,
April 6, 1954.

HON. HOMER E. CAPEHART,
United States Senator, 241 Senate Office Building, Washington, D. C.

DEAR SENATOR CAPEHART: The City Council of the City of Merced would like to go on record endorsing your amendment to the Housing Act of 1954, which would aid in prevention and control of air pollution.

We feel that this serious problem must be attacked because air pollution is foreclosing over all the United States to such an extent that as far as American cities are concerned it is causing and will continue to cause serious blight, slum conditions, and will adversely affect health, business, agriculture, home building, and proper subdivision development.

Respectfully submitted.

RUSSEL J. COONEY,
City Manager.

MERCED CITY CHAMBER OF COMMERCE, INC.,
Merced, Calif., April 9, 1954.

HON. HOMER E. CAPEHART,
*Chairman, Senate Banking and Currency Committee,
241 Senate Office Building, Washington, D. C.*

DEAR SENATOR CAPEHART: Our chambers of commerce wish to support you in your endeavors concerning the seriousness of the air pollution situation in many industrial areas. We feel that this is a most important matter for the San Joaquin Valley and our county in particular.

We are asking Senators Kuchel and Knowland and our Congressman Oakley Hunter to aid you.

Sincerely,

JACK M. ROTH,
Merced City Chamber of Commerce, Inc.
GYLE MILLER,
National Affairs Committee.

CITY OF MONTEREY PARK,
March 29, 1954.

Senator HOMER E. CAPEHART,
Senate Office Building, Washington, D. C.

DEAR SENATOR CAPEHART: The city of Monterey Park is a community of homes with approximately 26,000 residents, just a few minutes away from the center of the metropolitan area of Los Angeles. Air pollution strikes hard in our community driving some of our residents out into more distant suburbs to escape this "smog," and preventing others from coming to our city, retarding subdivision development that naturally should occur here.

The bill which you have supported, S. 2938, which would amend the administration's Housing Act of 1954, would, we understand, aid us greatly in the metropolitan area of Los Angeles by permitting speedy amortization of air pollution control devices. We also understand that your bill would permit federally insured bonds to build such devices, and would also provide for research in the field of air pollution control.

This sort of legislation at the Federal level appears to be our only source of real assistance. This is true because of the vast financial burden of industries who must be obligated to install these smoke control facilities. Apparently under our tax laws, the only suitably consistent way of encouraging industries to finance these costly installations is by some form of tax relief. Rapid amortization particularly can do just that.

Representing both the interests of the City Council of Monterey Park, and the many individuals and organizations who are daily distressed with discomfort and annoyance by air pollution in our community, we strongly urge you to strive to secure the votes necessary to pass your bill S. 2938.

Sincerely,

JOHN C. CROWLEY,
City Manager.

CITY OF NASHVILLE,
BUREAU OF INSPECTION AND PERMITS,
Nashville, Tenn., March 24, 1954.

HON. HOMER E. CAPEHART,
Chairman of the Senate Banking and Currency Committee,
Senate Office Building, Washington 25, D. C.

MY DEAR SENATOR: The writer is informed that your committee has before it certain proposed legislation which, if adopted, would provide for the following:

1. Provide for the rapid amortization of air-pollution-control facilities built in conformance with State and/or local law.
2. Set up an FHA or FNMA program to insure loans to corporations or individuals to construct such facilities.
3. Establish a provision providing for research in the field of air-pollution control.

The expenditure of large sums of money by industrial interest for air-pollution-control facilities is usually made to the interest of the general public. Such facilities are additional equipment over and above that actually required to accomplish the primary task and little, if any, return is realized from the investment.

This legislation will provide a very definite incentive to industry to install air-pollution-control facilities. It is believed that it would make the very difficult task, that of selling management on the advantages of air-pollution-control equipment, much easier for the local air-pollution-control officials.

The city of Nashville joins with other cities, that have been plagued with tremendous quantities of air pollution, in urging serious congressional attention to this legislation.

Yours very truly,

R. L. WALKER,
Superintendent of Inspections.

NATIONAL ASSOCIATION OF MANUFACTURERS,
New York 20, N. Y., April 8, 1954.

HON. HOMER E. CAPEHART,

Chairman, Senate Banking and Currency Committee, Washington, D. C.

DEAR SENATOR CAPEHART: It has been brought to my attention that section 124C of S. 2938, which was introduced into Congress on April 1, 1954, and referred to the Senate Banking and Currency Committee, deals with amortization deduction for certain treatment works—specifically entitling every person, at his election, to a deduction with respect to the amortization, based on a 60-month period, or the adjusted basis of any device, structure, machinery, or equipment for the collection at the source or the prevention or elimination of atmospheric pollutants and contaminants with respect to which device, structure, machinery, or equipment a certificate is made by the Secretary of Health, Education, and Welfare.

The National Association of Manufacturers heartily endorses the philosophy behind accelerated amortization for pollution-abatement facilities, whether they be for air or water.

As you may know, the association has had a committee on the conservation of renewable natural resources for some years. In its deliberations the committee has considered the problem of air and water pollution and has been interested in this matter for quite some time.

In April 1951, on recommendation of the conservation committee, the NAM board of directors adopted a policy position with respect to amortization of pollution-abatement facilities in connection with water resources. In 1953 upon further deliberation the conservation committee was of the opinion that consideration should also be given to include amortization of air-pollution-abatement facilities. The recommendation as adopted by the board of directors in December 1953, is as follows:

"POSITION ON AMORTIZATION OF POLLUTION-ABATEMENT FACILITIES

"The conservation of water resources is of paramount importance to industry and to the Nation. Encouragement of increased efficiency in water use is a major contribution toward accomplishing this important objective. Since expenditures for water conservation and pollution-abatement facilities in most instances do not produce revenue, industry urges provision for sufficient deductions in computing income taxes to offset the cost of such nonrevenue-producing facilities within a 5-year period, if desired, rather than over the useful life of the facilities.

"A similar policy should be followed with respect to expenditures for facilities to prevent air pollution because such expenditures are in the public interest but are not at present normally productive of revenue."

We are hopeful that you will give the question of accelerated amortization for atmospheric pollution-abatement facilities your earnest consideration during your committee's deliberations on S. 2938.

Sincerely yours,

H. C. McCLELLAN.

CITY OF PACIFIC GROVE, CALIF.,
April 8, 1954.

SENATOR CAPEHART,

Senate Office Building, Washington 25, D. C.

DEAR SENATOR: We heartily endorse your amendment to the administration's Housing Act of 1954—S. 2938.

While the problems which your bill seeks to alleviate are not critical in our area, there is a strong possibility that they will become so with the advent of more industries. We are fully cognizant of the air-pollution problems in the metropolitan areas in California and realize something must be done to correct this situation.

We certainly hope that this legislation will pass.

Sincerely yours,

CLARENCE A. HIGGINS, Mayor.

CITY OF PASADENA,
Pasadena 1, Calif., March 25, 1954.

HON. HOMER E. CAPEHART,
Senator from Indiana,
Senate Office Building, Washington 25, D. C.

MY DEAR SENATOR CAPEHART: We have just been informed that you will introduce and sponsor an amendment to the administration's Housing Act of 1954 which will materially aid in the elimination and control of air pollution. May we take this opportunity to reflect our wholehearted support for such an amendment.

Due to our geographical location we are one of the principal recipients of the smog originating in the great industrial areas of Los Angeles County. The situation has become absolutely intolerable and must be immediately corrected.

We are positive that every citizen of our community will be most grateful to you for any legislation which will aid and assist in the eradication of air pollution.

Yours very sincerely,

DON C. McMILLAN, *City Manager.*

CITY OF PERRIS,
Perris, Calif., April 8, 1954.

Senator HOMER E. CAPEHART,
Senate Office Building,
Washington 25, D. C.

DEAR SIR: The Council of the City of Perris, at their April meeting, voted to go on record at definitely supporting your amendment, S. 2938, aimed at facilitating the prevention and control of air pollution.

We are well aware that air pollution has become a serious problem in some areas of the State and even in certain sections of the southeastern part. We realize the damage this blight can do to plants and vegetation of all kinds in an agricultural and horticultural community, as well as retarding the development of homes.

We are highly in favor of any legislation that will assist in eliminating this scourge to health, business, and agriculture.

Sincerely yours,

M. B. MARTIN,
Clerk, City Council, City of Perris.

CITY OF PHOENIX,
OFFICE OF THE MAYOR,
Phoenix, Ariz., March 23, 1954.

Senator HOMER E. CAPEHART,
Chairman, Banking and Currency Committee
Senate Office Building, Washington, D. C.

DEAR SENATOR CAPEHART: Please add the wholehearted support of the city of Phoenix to your proposed amendment to the administration's Housing Act of 1954 to provide for the rapid amortization of air-pollution-control facilities.

We in Phoenix believe that now is the time in our rapidly growing community to take steps which will minimize air pollution as industrial development expands and thus avoid the conditions which have grown up in other industrial areas of the country. This situation applies, of course, to much of the expanding western economy.

We appreciate very much your interest in this problem and will be more than happy to lend any support that we can.

Sincerely yours,

FRANK G. MURPHY,
Mayor.

CITY OF PORTLAND, MAINE,
ADVISORY BOARD ON SMOKE CONTROL,
March 25, 1954.

HON. HOMER E. CAPEHART,
Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR CAPEHART: While this board cannot speak officially for the city of Portland, as the only agency in the city to administer the smoke-abatement program, the board wishes to express support for your proposed amendment to the administration's Housing Act of 1954 to provide for the rapid amortization of air pollution control facilities built in conformance with State and/or local law, including a program to insure loans to corporations or individuals to construct such facilities.

The members of the board feel that such legislation would produce a strong incentive for property owners to make improvements in cases where their facilities are plaguing the community.

The board has two suggestions—that the provisions for rapid amortization be expanded to include all air-pollution control and smoke-abatement facilities whether built to conform with law or not; and that a program be set up to benefit mercantile and industrial establishments as well as those which are purely housing.

The first suggestion is because the smoke-abatement program in this city is not compulsory, but voluntary and cooperative, and seems to be working out well for a comparatively small city where the problem has not become intense.

The second suggestion is because most of the troubles here and probably in most cities come from industry and mercantile establishments rather than housing.

Very truly yours,

WARREN McDONALD,
Secretary.

CITY OF PORTERVILLE,
Porterville, Calif., April 2, 1954.

Senator HOMER E. CAPEHART,
Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR CAPEHART: The city of Porterville is interested in the status of the bills before the Senate Banking and Currency Committee on loans to municipalities.

Any information given us will be appreciated.

Sincerely,

CHARLES J. CUMMINGS,
City Manager.

CITY OF RICHMOND, CALIF.,
April 8, 1954.

HON. THOMAS H. KUCHEL,
United States Senator,
Senate Office Building,
Washington, D. C.

DEAR SENATOR KUCHEL: The city of Richmond regards air-pollution control bill S. 2938 as beneficial to our people, our economy, and to the city as a whole.

Richmond is 1 of 2 California cities whose economy is basically manufacturing. We have had years and years of experience with the factors of industrialization that are detrimental to good living conditions.

In our area, we have seen examples of people moving because of fumes, odors, and smoke, leaving conditions of blight in certain residential areas. In other cases, we have seen nursery bedding plants completely ruined; painted surfaces on residences blistered and spotted; wash ruined by smoke stains; an entire area covered with a fine layer of dust; and a complete neighborhood area nauseated.

For the welfare of the people, every effort should be made for the judicious control of air pollution. The health, well-being, and living conditions of children, their families, and the economy of the community should not be sacrificed any longer.

The city of Richmond respectfully urges the passage of this vital legislation.

Very truly yours,

W. THOMPSON,
City Manager.

RICHMOND, CALIF.

Senator THOMAS H. KUCHEL,
Senate Office Building, Washington, D. C.:

The Richmond Chamber of Commerce urges passage of air-pollution control bill S. 2938. This program of research and financial assistance will improve the living conditions, welfare, and economic well-being of the citizens of our community.

R. P. COPELAND,
President, Richmond Chamber of Commerce.

LEAGUE OF MUNICIPALITIES OF ST. LOUIS COUNTY, MO.,
April 2, 1954.

HON. HOMER E. CAPEHART,
*Senator from Indiana,
Senate Office Building, Washington, D. C.*

DEAR SENATOR: Please be advised that the League of Municipalities of St. Louis County, Mo., comprising the above-named cities and villages of the county, after due consideration have approved your amendment to the administration's housing bill (S. 2938).

Air pollution is a matter which should interest all city and Federal housing agencies, and you have our wholehearted support.

Respectfully submitted.

ORLIE F. UNDERWOOD,
Executive Secretary.

CITY OF SAN BERNARDINO,
San Bernardino, Calif., March 30, 1954.

HON. HOMER E. CAPEHART,
*United States Senator, Senate Office Building,
Washington, D. C.*

DEAR SENATOR CAPEHART: In the March edition of the Washington Municipal News, I notice that you have introduced an amendment to your bill, S. 2938 (The administration's Housing Act of 1954) to provide tax relief for the construction of air-pollution-control facilities. Likewise proposed is a Federal FHA or FNMA insurance program for loans to construct such facilities. Your proposal also calls for an adequately financed air-pollution-research program. I also note the bill is now in committee and will be considered in executive session about the 19th of April.

Since our community is vitally concerned with the passage of this amendment, will you be so kind as to advise us as to how we may assist in bringing this bill to a conclusion.

We would also appreciate receiving any pertinent information regarding this bill and amendment.

Very truly yours,

GEORGE C. BLAIR, *Mayor.*

THE CITY OF SAN DIEGO, STATE OF CALIFORNIA,
April 8, 1954.

HON. HOMER E. CAPEHART,
*Member of Congress,
Senate Office Building, Washington, D. C.*

DEAR SENATOR CAPEHART: The San Diego City Council has asked me to write you expressing the city's strong support of S. 2938.

We believe that this amendment to the Housing Act of 1954 will greatly facilitate the prevention and control of air pollution. Here in San Diego we have an incipient smog problem, which we believe can be corrected through proper and timely legislation.

Unless this air-pollution problem is corrected in its infancy, it can easily retard the orderly growth of our city and adversely affect public health, business, and agriculture.

Sincerely,

JOHN BUTLER.

SAN FRANCISCO, CALIF., April 12, 1954.

HON. HOMER E. CAPEHART,

Chairman, Senate Banking Committee, Senate Office Building:

This organization is comprised of representatives of counties, cities, labor, industry, agriculture, and education in nine county bay areas. We urge approval of air-pollution legislation now before banking and currency committee, particularly section providing for amortization deduction.

FRANK E. MARSH,

Executive Vice President and General Manager, San Francisco Bay Area Council.

APRIL 13, 1954.

IN THE CITY COUNCIL OF THE CITY OF SAN LEANDRO

RESOLUTION No. 2321

Resolution urging adoption of Senate bill 2938; relating to air pollution

"Whereas, the city of San Leandro, Alameda County, Calif., has been and now is one of the most rapidly growing communities in the United States, providing by such growth greatly needed industrial expansion and homes for the workers engaged in such industry; and

"Whereas air pollution accompanying some types of industry causes serious blight, retards proper home development, tends to create slum conditions as well as adversely affecting health, business, and agriculture; and

"Whereas Hon. Homer E. Capehart, chairman of the Senate Banking and Currency Committee, has sponsored an amendment to the administration's Housing Act of 1954, being Senate bill No. 2938, which provides (among other things):

"(1) The rapid amortization of air-pollution-control facilities built in conformance with State or local laws;

"(2) An FHA or FNMA program to insure loans to corporations or individuals to construct such facilities; and

"(3) An appropriation for research in the field of air-pollution control.

Now, therefore, the City Council of the City of San Leandro does resolve, That the city council respectfully urges the passage by the Congress of the United States of this most needed legislation."

Introduced by Councilman Swift and passed and adopted this 5th day of April 1954, by the following called vote:

Ayes: Councilmen: Ballini, Cannissaro, Swift, Vlahos, Dunnigan (5).

Noes: Councilmen: None (0).

Absent: Councilmen: Knick, Musson (2).

HALSEY DUNNIGAN,

Mayor of the City of San Leandro, Pro Tempore.

Attest:

E. H. BURBANK, *City Clerk.*

CITY OF SAN MARINO,

San Marino, Calif., March 29, 1954.

HON. SENATOR CAPEHART,

241 Senate Office Building,

Washington, D. C.

DEAR SENATOR CAPEHART: This letter is written in support of the legislation you are sponsoring (S. 2938) to provide a practical approach to the alleviation of air pollution. The 13,000 residents of this community, a suburb of Los Angeles and adjacent to Pasadena, are deeply concerned about the health menace and the effect on property values that a continuation of air pollution will create.

We agree with the policy supported by the American Municipal Association which recognizes that air pollution causes serious blight; retards proper subdivision development and home building; leads to the creation of slum conditions; and adversely affects health, business, and agriculture.

You are therefore urged to continue your efforts to obtain enactment of the bill you have introduced, and please be assured of our commendation for this constructive action.

Sincerely,

C. E. MARTIN, *City Manager.*

BOARD OF SUPERVISORS,
COUNTY OF SAN MATEO,
Redwood City, Calif., April 8, 1954.

HON. THOMAS H. KUCHEL,
The United States Senate,
Washington, D. C.

DEAR SIR: At its April 6, 1954, meeting, the Board of Supervisors of the County of San Mateo adopted its resolution No. 8195 endorsing Senate bill 2938 (Capehart) and Senate bill 3115 (Kuchel), both relating to air pollution and presently under consideration by the United States Senate, and directed this office transmit to you certified copy of such resolution for your consideration in connection with legislation on the serious and pressing problem of air-pollution control.

Very truly yours,

JOHN A. BRUNING,
Clerk of the Board.

RESOLUTION No. 8195, BOARD OF SUPERVISORS, COUNTY OF SAN MATEO, STATE OF CALIFORNIA—RESOLUTION ENDORSING SENATE BILL 2938 (CAPEHART) AND SENATE BILL 3115 (KUCHEL), BOTH RELATING TO AIR POLLUTION, AND PRESENTLY UNDER CONSIDERATION BY THE UNITED STATES SENATE

"Be it resolved by the Board of Supervisors of the County of San Mateo, State of California, that—

"Whereas air pollution in and around the bay area, as well as in other places in the United States, is becoming more and more serious; and

"Whereas proper solutions to prevent or curtail the degree of air pollution have not been devised, and, where remedial steps may be taken, financial requirements on industrial plants are at times burdensome, if not impossible; and

"Whereas in full recognition of these problems, Senator Homer E. Capehart, chairman of the Senate Banking and Currency Committee, has sponsored an amendment to the administration's Housing Act of 1954 which would, if enacted, greatly facilitate the prevention and control of air pollution by (1) the rapid amortization of air pollution control facilities built in conformance with State or local law; (2) an FHA or FNMA program to insure loans to corporations or individuals to construct such facilities; and (3) an appropriation for research in the field of air-pollution control; and

"Whereas Senator Thomas Kuchel, of California, has also introduced legislation to amend the Internal Revenue Code so as to provide rapid tax amortization for air-pollution-control facilities built by industries in accordance with State or local law; and

"Whereas it is the sincere desire of this board of supervisors to obtain the utmost relief to the air-pollution problem in this county, and the aforesaid legislation is designed to accomplish this purpose: Now, therefore, be it

"Resolved, That the Board of Supervisors of the County of San Mateo does hereby endorse United States Senate bill 2938 (Capehart) and United States Senate bill 3115 (Kuchel), and does further urge representatives of the State of California in Congress to diligently pursue the enactment of this legislation; be it further

"Resolved, That copies of this resolution be forwarded to Senator Homer E. Capehart, Senator Thomas Kuchel, Senator William Knowland, and to Senator Millikin, chairman of the Senate Finance Committee, and to Congressman J. Arthur Younger, and to the National Association of County Officials.

"Regularly passed and adopted this 6th day of April, 1954.

"Ayes, and in favor of said resolution, supervisors: Thomas J. Callan, M. A. Poss, W. M. Werder, Alvin S. Hatch, E. R. McDonald.

"Noes, and against said resolution, supervisors: None.

"Absent supervisors: None.

M. A. Poss,
Chairman, Board of Supervisors, County of San Mateo,
State of California.

Attest:
[SEAL]

JOHN A. BRUNING,
Clerk of said Board of Supervisors.

CITY OF SAN RAFAEL, CALIF.,
April 7, 1954.

Subject: Air pollution—S. 2938.

Hon. HOMER E. CAPEHART,
241 Senate Office Building, Washington, D. C.

DEAR SENATOR CAPEHART: The City Council of the City of San Rafael wishes to express its support of Senate bill 2938. It is our understanding that you have sponsored this amendment to the administration's Housing Act of 1954 and it is also our understanding that the amendment would provide for rapid amortization of air pollution control facilities, an FHA or FNMA program to insure loans for the construction of such facilities, and appropriation for air pollution research.

We wish to compliment you on your vision in introducing such a measure. You are well aware, of course, that this legislation is consistent with the national policy adopted by the American Municipal Association. There is little doubt that air pollution sets up a hazard to the public health and welfare of any community.

The city of San Rafael is situated on the north side of the San Francisco Bay and is just beginning to feel the effect of air pollution. While air pollutants do not originate in our own city of San Rafael, under particular meteorological conditions the air surrounding this city does become polluted to a certain degree. While this problem might not be severe at the moment, there is every possibility that it might become so in the future.

It is our experience that air pollution, or smog as we call it in California, can hamper subdivision development and the construction of homes, as well as creating a blight situation in developed areas.

To this date air pollution control in the San Francisco Bay area has been on a voluntary basis. The city council feels that Senate bill 2938 will greatly accelerate any voluntary program.

Very truly yours,

WILBER SMITH, *City Manager.*

CITY OF SOUTH PASADENA,
OFFICE OF CITY CLERK,
South Pasadena, Calif., April 13, 1954.

Hon. HOMER E. CAPEHART,
United States Senator,
Senate Office Building, Washington 25, D. C.

DEAR SIR: I am enclosing certified copy of Resolution No. 2818 which was adopted by the City Council of the City of South Pasadena on April 7, 1954. This resolution favors passage of United States Senate bills 2938 and 3115 which pertain to air pollution control.

Yours very truly,

MARJORIE MERRITT, *City Clerk.*

RESOLUTION No. 2818

RESOLUTION OF THE COUNCIL OF THE CITY OF SOUTH PASADENA FAVORING THE PASSAGE OF UNITED STATES SENATE BILLS 2938 AND 3115

"Whereas there is pending before the Congress of the United States S. 3115, which would provide for a 60-month rapid amortization for tax purposes of facilities constructed by private industry for the control of air pollution; and

"Whereas there is also pending before the Congress of the United States S. 2938 which, in addition to the accelerated writeoff provision, also would authorize insurance of loans to corporations or individuals to construct or install air pollution control facilities and an appropriation for research in the field of air pollution control; and

"Whereas air pollution is a serious problem with and development of South Pasadena and is injurious to the health and being of the citizens of this community.

"Whereas the severity of that an Air Pollution Ordinance is so great that an Air Pollution Ordinance in 1947 to combat the menace of air pollution since that date has now

"Whereas the cities of Los Angeles County, Calif., members of this division of the League of California Cities, are in agreement that it is necessary that construction of air pollution control facilities and equipment be encouraged in every reasonable and possible way: Now, therefore, be it

Resolved, That the City Council of the City of South Pasadena respectfully urges the Congress of the United States to enact Senate bills 2938 and 3115. The city clerk is hereby instructed to transmit a copy of this resolution to Senator Capehart and a copy of the resolution to Senator Kuchel and a copy to each of the Senators from California and to each of the Representatives in Congress from Los Angeles County."

I hereby certify that the foregoing resolution was adopted by the City Council of the City of South Pasadena at its meeting held on the 7th day of April 1954, by the following vote:

Ayes: Councilmen Billings, Robinson, Ttanyer, Anderson, and Partsch.

Noes: None.

Attest:

[SEAL]

MARJORIE MERRITT,
Clerk of the City of South Pasadena.

Signed and approved this 7th day of April 1954.

J. C. PARTSCH,
Mayor of the City of South Pasadena.

CITY OF SUNNYVALE,
Sunnyvale, Calif., March 26, 1954.

Senator HOMER E. CAPEHART,
*241 Senate Office Building,
Washington 25, D. C.*

DEAR SENATOR: The advent of industries to desirable locations on the west coast has created very quickly an air pollution problem. Our city is an industrial city and we welcome the location of industry here and are proud of the fact that we are an industrial city. However, our industrial development has not been as rapid as it might be because of our strict requirements for the control of any possible air pollution coming from the industrial plants.

We appreciate the effort put forth by you and your colleagues in the development of legislation such as that in S. 2938 and S. 3115. This will materially aid industries in meeting their problem in air pollution and will assist in the proper development of west coast industries.

Thank you for your efforts in this direction and let us know if we can be of any assistance in developing this much needed legislation.

Very truly yours,

H. K. HUNTER, *City Manager.*

CITY OF TACOMA,
OFFICE OF CITY CLERK,
Tacoma, Wash., April 8, 1954.

Senator WARREN G. MAGNUSON,
*Senate Office Building,
Washington 25, D. C.*

DEAR SENATOR MAGNUSON: Enclosed you will please find copy of Resolution No. 13877, adopted by the City Council of Tacoma on April 5, 1954, favoring and requesting support for the Capehart amendment to the administration's housing bill (S. 2938) on the subject of air pollution, which is being forwarded to you in accordance with the provisions of said resolution.

Very truly yours,

JOSEPHINE MELTON, *City Clerk.*

RESOLUTION No. 13877

By Hooker:

"Whereas the city of Tacoma is convinced that air pollution causes extreme economic loss to housing, increases deterioration of homes, hastens the decline in property and neighborhood values, and contributes to slum-like living conditions; and

"Whereas Senator Capehart has agreed to sponsor an amendment to the administration's housing bill (S. 2938) to help municipalities overcome the problem of air pollution, by (1) providing rapid tax amortization for air pollution control

facilities, and (2) providing an FHA or FNMA insurance program for loans to construct such facilities, and (3) authorizing a large appropriation for increased research into air pollution causes and cures; and

"Whereas the proposed type of legislation will be of great value to the city of Tacoma because, while Tacoma is far ahead of most cities in such a program its efforts have been frustrated by the lack of government support; Now, therefore, be it

"Resolved by the Council of the City of Tacoma, That the Council of the City of Tacoma is in favor of and requests support for the Capehart amendment to the administration's housing bill (S. 2938) on the subject of air pollution; and that copies of this resolution be sent directly to Senator Homer E. Capehart, Room 241, Senate Office Building, Washington 25, D. C., and to the various Senators of the State of Washington, Senate Office Building, Washington 25, D. C."

Adopted on roll call April 5, 1954.

Ayes 8; nays 0; absent 1; Bratrud.

Attest:

H. M. TOLLEFSON, Mayor.

JOSEPHINE MELTON,
City Clerk.

CITY OF TACOMA, WASH.,
DEPARTMENT OF PUBLIC WORKS,
April 6, 1954.

Re amendment to S. 2938—tax relief

Senator CAPEHART,
Room 241, Senate Office Building,
Washington, D. C.

DEAR SENATOR: It has come to our attention that you have introduced an amendment to S. 2938, designed to provide tax relief for the construction of air pollution control facilities.

The city of Tacoma has only recently (1950) adopted an air pollution control ordinance. Administration of the air-pollution program has already pointed out the desirability of your action for providing an incentive for the local industry. As you probably know, the installation of a pollution-control facility very rarely pays for itself. It is also true that the local industries are relatively small and find themselves hard put to find money to put into a facility that has no prospect of returns.

The proposal that an air pollution research program be maintained is also commendable. It is desirable that the Federal Government direct its effort toward setting standards of pollution, pollution measurement and organization, in order to make various municipal ordinances and structures more uniform.

Very truly yours,

E. C. BASHEY,
Acting Director, Department of Public Works.
By A. E. HASTAD,
Air Pollution Control Engineer.

THE LEAGUE OF TEXAS MUNICIPALITIES,
Austin, Tex., March 22, 1954.

Senator HOMER E. CAPEHART,
241 Senate Office Building,
Washington 25, D. C.

DEAR SENATOR CAPEHART: We should like to join the American Municipal Association and other organizations in urging you to sponsor an amendment to the administration's Housing Act of 1954 providing for the rapid amortization control facilities built in conformance with State or local law. The proposal will also provide for the insurance of loans to individuals to construct air pollution control facilities. Citizens of Texas will greatly appreciate your efforts in

E. E. McADAMS, Executive Director.

CITY OF TORRANCE, CALIF.,
April 7, 1954.

Hon. Senator HOMER E. CAPEHART,
*241 Senate Office Building,
Washington, D. C.*

DEAR SENATOR CAPEHART: The city officials of the city of Torrance, Calif., are fully in accord with your bill S. 2938, which provides a means of preventing and controlling air pollution.

Air pollution has become a serious menace to our area and if continued or increased will adversely affect the health, industry, and agriculture of our city. We believe your bill affords a means of ultimate abatement to air pollution, and urge its passage.

You can be assured of our full support in any manner which may be effective.

Yours very truly,

GEO. W. STEVENS, *City Manager.*

ASSOCIATION OF WASHINGTON CITIES,
Seattle, Wash., April 7, 1954.

Hon. HOMER E. CAPEHART,
*United States Senator,
Room 241, Senate Office Building,
Washington, D. C.*

DEAR SENATOR CAPEHART: Word has been received through the American Municipal Association that you have agreed to sponsor an amendment to your housing bill to aid municipalities in overcoming the problem of air pollution. The Association of Washington Cities, representing the cities and towns of Washington, approximately 65 percent of the population of the State of Washington, wishes to commend you for this forward-looking step and to give any support possible to the amendment.

Please be assured that anything you can do to help solve this vexing problem will be appreciated by the municipal governments of this State.

Very truly yours,

C. M. McCOSH, *President.*

BRONX, NEW YORK CITY, N. Y., *April 12, 1954.*

Re: Article Smog Versus Lives, April 10, 1954.

Hon. HOMER E. CAPEHART,
Member United States Senate.

DEAR SENATOR: We are endeavoring to eradicate this situation in New York City which is honeycombed by a low standard of political expediency, and we will need to work with you to do something about it.

Sincerely,

JOHN FINKBEINER.

NATIONAL AVIATION TRADES ASSOCIATION,
Washington, D. C., April 15, 1954.

Senator HOMER CAPEHART,
*Senate Office Building,
Washington 25, D. C.*

DEAR SIR: We were delighted to read in a recent press release that you were trying to interest Congress in doing something about the increasing problem of air pollution. Our members have been harping on this for years admittedly for somewhat selfish interests since when the air gets so smoky that you can't see, our flying activities are severely curtailed. We would like to pledge the assistance of our organization in whatever way we or our members could help you in your smog investigations. Nobody is in such a good position as the average pilot to observe where the smoke comes from around any large metropolitan area.

In my own case in the New York area, I have worked with various agencies interested in abating the smoke nuisance. Actually, if we could require the powerplants to install smoke-control devices, eliminate the burning of garbage and trash in various city dumps, mostly in the Jersey meadows, and control the

smoke output from a few industrial sources such as two chemical plants and the Esso refinery, we would have eliminated over 50 percent of the New York smoke. Our laws need more teeth since unfortunately smoke-control devices are expensive although they sometimes pay for themselves in the long run. Another example closer to home is the Sparrow Point steel mill in the Baltimore area which is a national disgrace and literally smogs up hundreds of square miles daily.

We sincerely hope that your efforts will bear some fruit and would be glad to assist in helping on smoke surveys or in any other way that you think our services or equipment could help. Now that there appears to be increasing proof that there is a real health problem involved as a result of increasing air pollution, perhaps we can get more public support for better enforcement of existing smoke-control laws as well as the passage of additional ones.

Sincerely,

SAMUEL FREEMAN,
Eastern Vice President.

STATEMENT OF NATIONAL COAL ASSOCIATION, WASHINGTON, D. C.

Subject: Amendment to S. 2938. "Title VIII—Smoke Elimination and Air Pollution Prevention" in the Senate housing bill

This statement is made necessary by the fact that it was impossible to arrange for the appearance of a witness for National Coal before the committee in connection with the proposed air-pollution amendment to S. 2938.

Information regarding the committee's intention to reopen hearings on S. 2938, to accommodate the proposed amendment, was not received by us until late Friday, April 9. We had previously been advised that hearings on S. 2938 had been completed. Therefore, when we received this advice, we immediately tried to contact necessary individuals regarding the scheduled public hearings. On Monday, April 12, we were advised that sufficient witnesses to consume the full time of the committee during the 3-day hearings, had been arranged for, and therefore, no time was available for our witness.

We were also advised by a number of interested parties that they were unable to obtain time to testify. It was hoped that the hearings might be extended in order to provide for additional witnesses. From information derived from members of the staff of the Senate Banking and Currency Committee, we were advised there is not much possibility of extending hearings on this particular amendment.

In order that we may state for the record the position of the National Coal Association and others who are interested, we submit this statement and ask that it be incorporated as a part of the record of the committee's hearings on S. 2938 to consider Senator Capehart's amendment on air-pollution prevention.

Without being critical, but in the spirit of helpfulness, we point out that the basic principles involved in the amendment are laudatory. However, the method of approach leaves much to be desired.

We have no objections to offer as to section 803 or section 804 of the proposed amendment to the bill. We direct our attention particularly to section 802 of the amendment.

Section 802 would set up the Department of Health, Education, and Welfare as the vehicle and agency to "undertake and conduct a program of technical research and studies concerned with (a) causes of air pollution and excessive smoke, (b) devices, structures, machinery, equipment, and methods (including methods of selecting and using fuels) for the prevention or elimination of excessive smoke and air pollution or the collection of atmospheric contaminants, and (c) guidance and assistance to local communities in smoke abatement and air-pollution prevention and control."

Upon basis of such a statement, we presume that it is the intent of the amendment to concentrate on the technical aspects of air pollution rather than the theoretical or philosophical points.

If such a conclusion is correct, then there is grave doubt in our mind that the Department of Health, Education, and Welfare, either on the basis of available personnel or background, is the proper agency to conduct

that the agency for such an accomplishment would be the Department of the Interior, wherein personnel, facilities all lend themselves to such a technical

Particularly since "devices, structures, machinery, equipment, and methods" are to be among the principal points of consideration.

It is worthy of the committee's note to understand that programs for preventing air pollution have been in progress for a number of years. Their accomplishments of import are a matter of record.

Such agencies as the Air Pollution Control Association, the Bituminous Coal Workers Committee for Smoke Abatement, Bituminous Coal Research, Inc., the Memorial Institute, as well as many institutions of technical education as Purdue University in Indiana, Pennsylvania State College, Massachusetts Institute of Technology, and many others, have contributed greatly to the accomplishments in the field of air-pollution control.

Many of the experts in the field of air-pollution control speak not from cursory knowledge, but from years of study and experience. They feel that while there is much to be accomplished in the attainment in the final goal of the air-pollution control; nevertheless, the end can be attained most economically and most effectively by working on a program such as that now in operation by the Air Pollution Control Association.

The APCA is made up of the representatives of a number of industries such as bituminous coal, petroleum, steelmaking, electric-power generation, railroads, chemical manufacturers, automotive and transportation operators, and the governmental air-pollution-control officers. The programs sponsored by these groups are directed toward the problem of air-pollution control on a specific industry basis. It is in the opinion of the committee that certainly the proper solution to a problem within an industry must be solved by people within the industry itself who know every facet of the problem. Under the sponsorship of the Air Pollution Control Association, a technical consulting committee composed of representatives of each of the industries, is set up to guide the individual work of a group of working subcommittees appointed from each of the individual industry groups.

An example of the type of operation incorporated in the APCA project is that now being conducted on the air pollution caused by automotive highway problem.

This problem is particularly acute in Los Angeles, Calif. (where there is a great deal of solid fuel consumed for industrial purposes). As a phase of the investigation is being made into the atmospheric contaminant caused by automotive exhaust gases, particles resulting from tire wear and highway dust, and other causes. The study of such a problem, it is felt, can best be handled by people within the automotive and highway user groups.

In many circles, it is seriously doubted whether the proposed \$5 million appropriation for the purposes outlined in section 802, would be productive of any amount of good nor would the accomplishments be any more substantive than those to be expected from studies conducted by agencies of private enterprise.

The problem of air-pollution control is one which commands the serious and continuous attention of all segments of industries involved. It is not a problem which is passed over lightly; nor is it one for which excuses rather than solutions are sought. While not passing on the basic principle involved in the role of Government intervention, in such a problem, it is felt that the committee should look carefully at the projects now being carried on by private enterprise, which can be expanded at undoubtedly less cost and perhaps more effectively than through the avenue of governmental bureaucracy.

X

HOUSING ACT OF 1954

FHA Insurance Provisions

MONDAY, APRIL 19, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, in room 318, Senate Office building, at 10:05 a. m., Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bricker, Bennett, Bush, Payne, Maybank, Frear, Douglas, and Lehman.

The CHAIRMAN. The committee will please come to order.

The first order of business will be a vote on the part of the committee to subpoena Mr. Powell. Mr. Powell telephoned me at 25 minutes of 10 this morning and said that he would prefer not to appear without subpoena.

That was the first time the chairman knew that he required a subpoena or wanted a subpoena. He is now waiting over in the Sergeant at Arms' office, and I wish someone would make a motion that we subpoena him.

Senator MAYBANK. I so move, Mr. Chairman.

Senator BUSH. I second it.

The CHAIRMAN. It has been moved and seconded that we subpoena Mr. Powell. All in favor say "aye"; contrary, "no." The ayes have it.

I ask that the assistant clerk of this committee issue such a subpoena and take it to the Sergeant at Arms' office and serve it on Mr. Powell, and ask him to immediately come to this room. Until such time as Mr. Powell does appear, I think we should do nothing here, because he was to be our first witness.

I much prefer that he listen to what I have to say in my opening statement before we proceed. I will say this while Mr. Powell is on his way, that this hearing today and tomorrow and the next couple of days is primarily a continuation of our hearing on the proposed legislation that we have been working on here now for many, many weeks.

The committee will be in recess for a couple of minutes, until such time as Mr. Powell arrives. Had we known that Mr. Powell required a subpoena, we would have had it served on him before, but it was our understanding that he was voluntarily going to appear, and we did not know otherwise until 25 minutes of 10 this morning.

This was the first opportunity that the chairman has had to get the full committee together to authorize a subpoena. While we are waiting on Mr. Powell, it might be well for the committee to give the

chairman authority to issue subpoenas in the future in respect to this investigation.

Senator MAYBANK. I so move, Mr. Chairman.

Senator BRICKER. I second it.

The CHAIRMAN. It has been moved and seconded that the chairman be given authority to issue subpoenas in respect to this investigation in the future without taking it up further with the full committee. Is there objection?

Senator DOUGLAS. There is no objection, but I would suggest that the chairman consult with the ranking minority member, Senator Maybank, of South Carolina, on such matters.

The CHAIRMAN. I would like to say that the resolution adopted a few days ago by the full committee, giving the chairman the right to proceed in this matter, stated that the chairman was to proceed in cooperation and coordination with the ranking minority member. He will do that in every instance.

Senator MAYBANK. Might I ask the chairman if we have the list, yet, from the White House, of the 1,149 people?

The CHAIRMAN. The list of 1,149 names that you have been reading about in the newspapers will be delivered to the committee within a few minutes. I think that possibly we had better proceed.

I have a few things I wish to place in the record at this time. Without objection, I would like to place in the record the directive of the President of the United States issued to the Administrator of the Housing and Home Finance Agency on April 12. Is there objection?

I would also like to place in the record at this time a statement made by Albert M. Cole, the Administrator of the Housing and Home Finance Agency, on April 12, 1954.

I would also like to place in the record at this time a statement issued by myself for release to the Sunday a. m. papers, setting forth the position of this committee in respect to proposed legislation.

I would also like to place into the record a press release issued by the senior Senator from Virginia, Mr. Byrd.

I would also like to place into the record a statement that I have prepared as chairman of this committee as opening remarks at the opening of this hearing. This is quite a long statement. There are 12 pages to it. I shall not read it, but I do urge every Senator and everyone interested to read this statement. A copy has been placed before each Senator. There are sufficient copies available for anyone in the audience to read.

I will talk briefly about this statement.

(The documents referred to follow:)

THE WHITE HOUSE

WASHINGTON

APRIL 12, 1954.

MEMORANDUM FOR THE ADMINISTRATOR, HOUSING AND HOME FINANCE AGENCY

In order to facilitate the investigations which are being conducted by the executive branch of the Government and any other actions necessary or proper to insure the fidelity of operations under the National Housing Act, you are authorized and directed to take custody forthwith of all files and records of the Federal Housing Administration, both in Washington and the field, pertaining to title I and section 608 of the National Housing Act, and such other records as you find proper for such purposes.

DWIGHT D. EISENHOWER.

STATEMENT BY ALBERT M. COLE, ADMINISTRATOR, HOUSING AND HOME FINANCE AGENCY

I am today making public the first of a series of decisive actions based on alleged serious irregularities and abuses that have occurred in the FHA small property improvement insurance program under title I of the National Housing Act and evidence of illegal or unethical actions concerning the financing of privately owned rental-housing projects, under section 608 of the Federal Housing Act which expired in 1950, and other matters concerning the housing program.

The lenders, under title I, are protected by a Government guaranty and the Government is protected against financial loss by the accumulated loss reserves. Our concern is for the small-home owner who seeks to use the benefits provided by Government-insured property improvement loans. He is entitled to better protection against the sharp practices which induce him to borrow to pay exorbitant prices for improvements which are often unnecessary and work which is often shoddy.

The investigations conducted by the Department of Justice have established that the misuse of this Federal insurance program for small-home owners over the past several years has been so widespread and numerous as to make mandatory two more types of investigative action. The first of these will be the freezing of the FHA files under the supervision of a new investigative staff, effective immediately. Secondly, there will be a concurrent intensive investigation by the Department of Justice of possible criminal violations and the initiation of criminal prosecution where necessary.

William F. McKenna, a prominent Los Angeles attorney with broad experience in governmental investigations, has been appointed Deputy Administrator of the HHFA to direct the HHFA inquiry. Assigned to him for this purpose, and assuming direct charge of the FHA records and investigative staff, will be Lester Condon, until April 9, 1954, chief investigator of the House Government Operations Committee.

These actions are taken following extensive conferences with officials of the Department of Justice over a period of several weeks.

Concurrent with these investigations, we will give attention to the organization and administration which permitted these abuses to grow over a period of years. The future interests of the public and businessmen dealing with the FHA must be protected as well as the proper interests of the Government itself.

I want to emphasize while it is clear the vast majority of the lenders, builders, and citizens throughout the United States who use the FHA facilities observe a high level of ethical conduct, the evidence already at hand requires drastic and immediate action. I am confident that we will have the cooperation and support of the public and the users of the FHA facilities in this cleanup program.

The program calls for:

1. The immediate transfer of the jurisdiction of investigation of all transactions involving possible criminal action from the FHA to the FBI. Heretofore, most preliminary criminal investigations have been made by the FHA's own compliance staff.

2. Immediate appointment of McKenna as Deputy Administrator of HHFA to head up the HHFA investigations, and to determine responsibility for any lack of compliance with administrative regulations on the part of FHA personnel or the users of credit under the Federal Housing Act. Transfer to the Deputy Administrator's jurisdiction of the investigative staff of the Federal Housing Administrator, and the appointment of additional skilled investigators.

3. An intensive review of the organization, procedure, and working methods of the FHA to determine changes which should be made to increase its effectiveness in insuring the fidelity of transactions under the laws which it administers.

4. Such changes in regulations covering the property improvement credit program as the investigation shows to be necessary to insure that homeowners receive the maximum of protection against any form of abuse.

5. To facilitate a completely impartial evaluation of the FHA as to policy and procedures, a number of the positions of senior operating officials will be affected.

This does not necessarily imply the malfeasance or incompetence of those officials. However, if the evidence before us is correct, the FHA has obviously suffered from a progressive laxity which is incompatible with good government. In view of the number of complaints which have been made by citizens in recent year, the small fraction which have been acted upon effectively is significant.

Our primary purpose is not solely to bring punitive action where necessary but to insure against the recurrence of these unethical or illegal devices.

Among the circumstances which led to this corrective program were:

1. Complaints received and investigated by the Department of Justice in various parts of the country indicated a widespread activity on the part of roving groups of high-pressure home-improvement and repair salesmen which moved from city to city after using the forms and facilities of title I of the Federal Housing Act to exploit families inexperienced in lending activities. The Department of Justice reports even show that crews of from 50 to 100 of these "dynamiters" openly stayed at the same hotels to work medium-sized cities one after another.

2. The reports indicated that the actual repair jobs contracted for by homeowners were in some cases auctioned off to local dealers by these sales groups at an exorbitant profit. Frequently the work done was characterized as shoddy. In other instances the homeowners were led to borrow more than the cost of the work with the promise that the difference would be paid back to them in cash. The homeowner was then obligated to pay the full amount even though he might never see the promised cash rebate. These and other devices of sharp practice have been freely used to victimize people of modest incomes.

3. The fact that these operations involve the fleecing of numerous homeowners in many parts of the country became apparent to me over a period of time as a result of an accumulation of complaints to the Department of Justice and the resulting investigations, which the Department of Justice reported to me.

4. Meanwhile, the FHA, the agency responsible for the administration of the programs, failed to hold such cases to the few which would be inevitable under a program of this magnitude. Complaints which I received and referred to the FHA for action were not properly investigated and acted upon.

There will also be an especially close scrutiny of all large-scale rental housing projects which were initiated under the regulations governing multifamily dwellings. Investigation already has developed 251 cases among these larger projects where proceeds on FHA-insured mortgages ranged in amount from 110 percent to 150 percent or more of the total cost, including land. Certain of these transactions are already under scrutiny by the Bureau of Internal Revenue and have been or will be made the subject of tax suits.

The reported procedure is that a number of the interests who sponsored these projects declared a liquidating dividend to themselves of the difference between the FHA-insured loan proceeds and the cost of the project. The total windfall in these 251 cases alone is estimated to amount to well over \$75 million. In contrast to the situation under the title I home-improvement program any substantial losses on these transactions may be at the expense of the Government.

The reports of investigations already made indicate that the practice was so prevalent and widely known that it is inconceivable that responsible FHA officials could be unaware of it.

[Sunday a. m., April 18, 1954, press release]

STATEMENT OF SENATOR HOMER E. CAPEHART

WASHINGTON.—In connection with the scheduled opening of hearings on the Federal Housing Administration matter Monday, Senator Homer E. Capehart, chairman of the Senate Committee on Banking and Currency, today issued the following statement:

"For several weeks, this committee has been at work on the very important Housing Act of 1954.

Because this legislation is so important to all of the people of the United States, it is the first responsibility of this committee to complete the drafting of the bill so that it can be passed by the Congress and signed by the President.

"As you all know, while the committee's work was in progress on this bill, certain allegations came to light with respect to charged irregularities and possible violations of the housing law, particularly title I and section 608, within the Federal Housing Administration.

"President Eisenhower acted quickly, as soon as the allegations were called to attention, and has now pledged to this committee the full and complete cooperation of all Government agencies in conducting an investigation.

"We must, as quickly as possible, complete action on the new housing law. We must know whether there are weaknesses in the present housing

law which made possible any wrongdoing within the Federal Housing Administration. If there are, then the committee will write into the new law such provisions as will make impossible the recurrence of any similar wrongdoings in the future.

"So, our first hearings—extending over 4 days—will be devoted to this problem. In this way, we will avoid unnecessary delay in enacting a new housing law.

"The persons best qualified to assist us in making such a determination—to tell the committee whether there are weaknesses in the present law—are those people who have been living with, working with and administering the housing laws over a period of many years.

"Some of these persons are in the Government service, or have been. Others are the leaders in the housing industry and in the field of housing financing. The views of both Government and industry experts on the subject will be invaluable to the committee.

"With this in mind, the committee has called witnesses from both Government and industry in the first phase of this inquiry. After this job has been done—and the housing bill sent to the Senate—the committee then will discharge its responsibility to conduct a full and complete, 100-percent investigation of any irregularities or fraud in the administration of the law, as has been alleged.

"Nobody can tell, at this point, how long such an investigation will require. It might take a month, 6 months, or a year, but the committee is determined to do a complete and thorough job—let the chips fall where they may—no matter how long it takes.

"In preparation for the first phase of the committee's work, therefore, the committee has called the following witnesses:

Monday, 10 a. m.

Mr. Guy T. Hollyday, former Commissioner of FHA

Mr. Clyde L. Powell, Assistant Commissioner of FHA, in charge of rental housing

Tuesday, 10 a. m.

Mr. Albert Cole, Administrator of the Housing and Home Finance Administration

Mr. Walter L. Green, former Deputy Commissioner of FHA

A representative of the General Accounting Office

Wednesday, 1:30 p. m.

National Association of Home Builders, 1028 Connecticut Avenue NW., Washington, D. C., Mr. Richard G. Hughes, president

Mortgage Bankers Association of America, 1001 15th Street NW., Washington, D. C., Mr. William A. Clarke, Philadelphia, president

Thursday, 10 a. m.

National Association of Real Estate Boards, 1737 K Street NW., Washington, D. C., Mr. Roland J. Chinnock, Chicago, president

The American Bankers Association, 719 15th Street NW., Washington, D. C., Mr. J. Olney Brott, general counsel

Life Insurance Association of America, 1000 Vermont Avenue NW., Washington, D. C., Mr. Eugene M. Thore, general counsel

National Association of Mutual Savings Banks, 60 East 42d Street, New York, N. Y., Mr. Harry E. Proctor, assistant general counsel, 1110 Investment Building, Washington, D. C."

[For immediate release, Tuesday, April 13, 1954]

STATEMENT BY SENATOR HARRY F. BYRD, (DEMOCRAT, VIRGINIA), CHAIRMAN OF THE JOINT COMMITTEE ON REDUCTION OF NONESSENTIAL FEDERAL EXPENDITURES

Scandalous practices in the Federal Housing Administration, on which Housing and Home Finance Administrator Albert M. Cole acted last night, have been under investigation by the Joint Committee on Reduction of Nonesential Federal Expenditures for nearly a year.

Some 1,800 cases have been examined and to date more than 700 in all sections of the country have been found where FHA guaranteed loans running to millions of dollars in excess of the cost of the projects. Official records in my possession indicate unconscionable profits have been made by many in construction projects sponsored by the Federal Government under its housing programs.

I first called this situation to the attention of Mr. Cole on July 1 last year. As the committee's examination of the records went forward, soon after the Con-

gress convened this year, I called on the Federal Housing Administration to make available its best-informed official for purposes of going over the evidence which in many instances indicated at least excessive profits, if not fraud.

Mr. Clyde L. Powell, Assistant Commissioner (Rental Housing), Federal Housing Administration, was sent. His answers were evasive and he appeared to be unaware of the apparent practices.

The records showed that the loans were being based on appraised value of the properties under construction rather than the cost; indicated that FHA in many instances had guaranteed loans for amounts far in excess of the actual cost; indicated that the \$5 million maximum loan limit was being winked at; that some builders were profiteering on excess loans; and indicated that, even in cases where they were risking little or none of their own money, some builders for tax purposes were calling these excesses "return of capital" in order to qualify for the lower capital gains tax rates instead of the higher normal rate.

On March 24 I communicated again with Mr. Cole, specifically citing the Glen Oaks Village case of Queens County, N. Y., where loans aggregating \$24 million were guaranteed on a project costing \$20 million, which is now before the United States Tax Court. In the same letter I cited the case of the Brookside Gardens project, for which the records show a Jamaica, N. Y., address, where 3 original stockholders each purchased \$10 in common stock and got a loan guaranteed by FHA for \$3,382,404, and took for themselves tremendous distributions.

In this latest communication I asked Mr. Cole specifically "who was responsible" for approving excess loans and permitting evasion or avoidance of the law with respect to the loan limit. Mr. Cole's reply, dated April 1, follows:

"DEAR SENATOR BYRD: I have received your letter of March 24, in which you request information regarding the FHA-assisted projects known as Glen Oaks Village and Brookside Gardens.

"Your request will be given immediate attention and the information you desire will be furnished with the least possible delay.

"Sincerely yours,

"ALBERT M. COLE."

I have not yet received further reply, but apparently the situation was covered in some degree by Mr. Cole's action last night.

The Joint Committee on Reduction of Nonessential Federal Expenditures in its 12 years of operation has always been most meticulous in its policy against making information public until it was thoroughly accredited. For this reason I have refrained to date from publicizing this investigation into housing program practices, which apparently in many instances condoned unwarranted profits running into millions of dollars, pending a determination as to whether there may have been shocking fraud and graft.

Under the circumstances complete dismissal of employees who may have been involved in these practices should be withheld until it can be established whether the practices warrant criminal prosecution.

I shall deal with this matter in more detail on the Senate floor tomorrow and the Joint Committee on Reduction of Nonessential Federal Expenditures will continue its investigation at a meeting at 10 a. m., next Tuesday. Mr. Cole will be among those summoned as witnesses.

STATEMENT BY SENATOR CAPEHART AT OPENING OF FHA HEARINGS

Under the Reorganization Act of 1946 the Banking and Currency Committee, under rule 25 of the Standing Rules of the Senate among other things is charged with responsibility for all proposed legislation and other matters relating to housing. Under section 136 of the Reorganization Act the committee is required to oversee the operation of the administrative agencies concerned with any laws or subject matter within the jurisdiction of the committee.

It is in accordance with this law and our responsibilities under it that I have been authorized by this committee to open this investigation of the operation and administration of the FHA.

Pending before this committee at the present time is the Housing Act of 1954, S. 2938. Originally we had scheduled executive sessions on this bill for tomorrow, April 20. The committee has agreed to postpone these sessions for 2 weeks in order that it could have the opportunity to learn what was involved in allegations of abuses, maladministration and possible misconduct in connection with the operation of the various FHA programs, and to determine if

ible how it all came about.

mittee is also anxious to determine whether any of these abuses that existed are possible under the legislation which we have under consideration, if so, how we can prevent them from ever occurring again.

The committee also feels that the public is entitled to know the full facts set to this whole situation. The Congress is merely the board of directors to speak, in this complicated business of government, and the agencies are the managers and operators of the Government's business, and they are the owners and they are ultimately responsible for the manner in which this Government operates.

To be operated and managed properly, the people must be kept well informed.

To provide full and accurate information is the responsibility of the agencies and divisions in our Government. The committee can perform a function better than the executive agencies concerned. Our investigation is intended as a duplication of agency investigations, but as unprejudiced and coordinated part of it.

The chairman of this committee, I shall endeavor to be as fair and judicious as possible. We are not aiming to prosecute. We are aiming at knowledge and education. Our primary objectives are to see that whatever abuses, misdeeds, or maladministration may exist is immediately corrected, and to re-examine in the light of what has apparently happened with the intention of making necessary changes. We are confident that the executive and judicial branches of this Government will carry out their responsibilities and bring to justice those persons who may have violated the law, and that they will take other action as is deemed necessary.

The committee, I believe, from a review of its action and deliberations over the past year has shown itself to be aware and concerned about the abuses that may or may have existed. By legislative action, in its committee reports and actions, this committee, in spite of much expert testimony on the part of Government and non-Government witnesses to the contrary, has consistently cautioned the agency in the administration of the various programs, and has at times succeeded in amending various sections with a view to eliminating abuses or preventing them from occurring.

The committee, when complaints about alleged violations were made to it, has always brought them to the attention of the agency for investigation and action.

Some time ago certain allegations regarding favoritism and possible misdeeds of two FHA officials were made to a member of the staff of the Banking and Currency Committee in connection with another investigation he was conducting. He informed the chairman of the committee and the member of the committee in whose State the alleged incidents occurred. In order to protect the names of the officials involved, even though it meant no favorable head-on attack by the chairman, the other member of the committee concerned and for the Banking and Currency Committee, and in order not to interrupt and delay important legislation pending before the committee during the session, the case was referred to the HHFA for a full and complete investigation and proper official action on the basis of the investigation. All information was furnished to the member of the Banking and Currency staff was turned over to the agency and a full and, I presume, complete investigation was made. From the information presented to the committee in executive session on April 14, the case proved to be an important factor in the investigation the HHFA was undertaking and apparently the basis for some official action taken by the Attorney General. The public hearings will doubtlessly reveal the results of the investigation and any action which was taken as result of it.

The Senate Banking and Currency Committee expressing concern over the insurance granted in some cases represented more than 90 percent of the costs, reported out of the committee an amendment to section 608, which directed the FHA Commissioner to use every feasible means, which, in his judgment, would assure that estimates approximate as closely as possible the cost of efficient building operations. This became Public Law 394, 80th Congress, December 27, 1947.

The Banking Committee, in an attempt to cut down on what they believed was an inflation that was going on, amended the law again in 1948 shifting the basis for estimating the mortgage amount from 90 percent of "estimated current cost," which would permit cost to include premium payments on the property to get, to "the Administrator's estimate of the replacement cost of the property or project on the basis of the costs prevailing on December 31, 1947, for properties or projects of comparable quality in the locality where the property or project is to be located."

In January 1949 during hearings on the Housing Amendments of 1949 the FHA Commissioner and Assistant Commissioner testified extensively in response to interrogation by members of the Banking and Currency Committee that they did not believe it was possible to build a 608 project for much less than the estimated cost. Assistant Commissioner Powell at one point in response to a question as to whether a project could be built for as little as 70 percent of the estimated cost testified:

"I do not see how that is possible, because we are right on top of local construction costs. We get a determination from the Secretary of Labor as to the wages that he (the builder) must pay for all the mechanics on the job. If he does not violate the statute, he must pay that wage rate.

"We estimate the length of time it takes to construct that job, and make an estimate of all the materials that go into it, such as plumbing, heating, plastering, electrical work, and all that. Our figures are on the current market, not on the national market, what it costs in this particular community. We might be off 2 or 3 percent. I do not think it could be physically possible to be off anything like 30 percent."

In spite of such testimony by officials who had great familiarity with the program, this committee, on August 11, 1949, reported out S. 2246, Housing Amendments of 1949. An amendment in the bill changed the ratio of the mortgage amount to necessary current cost from 90 to 80 percent. In discussing that amendment, the Banking and Currency Committee report stated:

"It was brought to the attention of your committee that FHA, in estimating necessary current cost under section 608, included percentages for architects' fees, contractors' overhead, and other items which, in many instances permit the approved 90-percent mortgage to exceed the builders' actual costs. A proposal was made to your committee that the bill include limitations as to the maximum amounts which could be included for these specific items. After studying this matter, your committee rejected the proposal because of the administrative and other difficulties which would be involved. In place of this, the amendment now contained in section 116 (a) was added. In the opinion of your committee the amendment would reduce the maximum mortgage limitation by approximately the same amount as the rejected amendment. The reduction in maximum mortgage amount would be made effective as to all applications for insurance commitments filed subsequent to August 8, 1949. This, in the opinion of your committee, will prevent the reduction from adversely affecting prospective builders who have already made their applications for commitments on the basis of 90 percent. At the same time it will prevent the rush to file applications and the pressure for processing commitments which would be entailed if additional applications were to be accepted and processed on the basis of the present 90-percent limitation."

In 1950 a reliable witness, Mr. Rodney Lockwood, then president of the National Association of Home Builders, testified in response to Senator Sparkman's question relating to possible profits on section 608 mortgages as follows:

"Senator SPARKMAN. In fact, you have done a lot of building under it (sec. 608). I mean, your people, not you individually. We have had fine cooperation between the National Home Builders and the Federal Government and everybody who is building homes. We have had fine cooperation under section 608. Yet, isn't it true that under section 608, many times the amount of money that the Federal Government guaranteed, or insured, or stood for, I don't care what term you apply, represented more than a hundred percent?

"Mr. LOCKWOOD. I don't know of a single case of that being true. I think that is one of the most widely circulated bits of misinformation that I have heard talked about in housing for a good many years. The impression seems to be that the builder gets in the form of a loan under section 608 more than the total cost of the project. Believe me, in those that I have participated in that has not been true. I have not actually seen or heard of any in which that was true.

"Senator SPARKMAN. I am sure that I can say that there has been ample evidence presented to the committee from time to time justifying our believing that that is true. As a matter of fact, when we reported S. 2246 to the Senate, as you recall, we proposed to cut the amount of the loan insured under section 608, very largely for that reason. And I might also call your attention to the fact that the Architectural Forum, in its November issue, brought out that very point --

"Mr.

loans under section 608.

I ask, in all these things, was there any real factual evidence?

r SPARKMAN. I don't have it before me, but we had numerous specific ad to our attention, and I believe I am safe in saying this: That some of our committee have told us that they had been told by the builders that they had gotten more than 100 percent. If I remember correctly, I say it positively, but as I remember it Senator Long said he knew of a builder friend of his had gotten 120 percent.

fairness, let me say that I am not condemning the builders.

CKWOOD. If I may be facetious, I would like to say that that statement 'cent sounds like barroom talk. I can't believe that the FHA would x in its administration."

rtng out the Housing Act of 1950 on February 24, the committee referring to the 608 program, pointed out, "This program has been guated as the 'apartment boom floated on public risk and private profit.' on 608 rental housing program has been such that there is every in- or the sponsor-builder corporation to undercut the long-term value erty, and almost a complete lack of incentive for it to do anything rther on the report stated, "The Government has guaranteed \$2½ risk on rental housing built for speculative profit—risk based on hich too frequently are fiction and on inflated values."

Defense Housing and Community Facilities and Services Act of 1951 e Banking and Currency Committee, in view of their experience with order to prevent any recurrence of mortgaging out or making a profit ortgage, added an amendment to the defense-housing provisions, title : FHA Act (which was somewhat similar to title VI but less liberal : the mortgage amount was based on appraised value, rather than re- : cost as in 608). The amendment required the mortgagor upon the n of the physical improvements to certify the actual cost of such im- ts. If the mortgage amount, according to the amendment, exceeded : of the certified actual cost, then the mortgage amount had to be reduced ount. This amendment was also added to the FHA military housing provisions of the act, title 8. During the course of our investigation attempt to find out how effective this amendment was in preventing

ference to FHA, title I, the repair and home improvement provisions ; in view of the present indications of the extent of the abuses under as been surprisingly few complaints made to the Congress about this

theless, this committee on the basis of some complaint and out of natural out a program that might lend itself to abuse warned in the committee February 24, 1950, that "we are concerned with numerous claims that am has stimulated an undue expansion in consumer credit and has too frequently as a technique for selling unessential equipment and ather than for its basic purpose of making it possible for homeowners essential repairs and improvements for their homes at the lowest ost. Your committee therefore believes that the FHA should take sure that operations of the title I program will be made consistent with y housing objective."

same report the committee also pointed out that the effective cost to of the 5 percent discount allowed on this type of loans amounted to it. It recommended that the FHA reexamine this charge with a view mediate reduction to the lowest feasible rate. As yet—4 years later—ot been done.

ar this committee on the recommendation of the agency increased the tion for this program by \$750 million. Not a single person requested estify in opposition or bring to the committee's attention any of the buses.

onse to a request for information about possible abuse of the title the e staff was supplied with the following information with respect to ion.

g into consideration the scope of the activity as indicated by the number pants and the fact that business is being generated at the rate of ately \$1 billion per year, we feel that the abuses resulting from activities al dealers are relatively small. Notwithstanding this fact, we recog- nite responsibility to afford the homeowner every protection from un- s dealers and salesmen that can be instituted within the scope of our

"Rather than attempt such widespread controls and restraints, we rely on our contractual relationship with the insured lenders to support a specific requirement that each lender thoroughly investigate and approve a dealer prior to accepting any title I loans originated by him. Such approval is given only after the lender has established that the dealer is reliable, financially responsible, and qualified to perform satisfactorily the work to be financed and to extend proper service to the homeowner. We regard this as one of the most important of our regulatory requirements and our administrative staff in its contacts with lending institutions places continuing emphasis on this responsibility.

"Occasionally FHA will receive a report that a dealer has committed an irregular or unethical act in connection with a title I transaction. Such advice usually comes in the form of complaints registered by homeowners which may be relayed through lending institutions or received direct by the FHA. All reports are investigated by FHA field personnel, or in some instances by the lending institutions involved. Any dealer whose operations are found to be contrary to the standards and requirements of the title I program is placed on notice that restrictive administrative action will be taken unless the deficiencies are corrected. If the dealer fails to cooperate, all insured lenders are notified that future business originated by the particular dealer will be acceptable for insurance only if the lending institution takes certain precautionary steps such as verifying credit information, having the completion certificate signed in the presence of an employee of the institution and making an actual inspection of work performed on larger loans. Experience has shown that such action almost invariably has had the effect of protecting homeowners from any further abuses on the part of the dealer involved.

"During 1951 FHA issued precautionary measures letters in 273 cases. During 1952, the number of such letters dropped to 185, indicating that definite progress is being made in eliminating undesirable dealers from the program. I feel that this progress is due in part to FHA's continued efforts to impress upon lending institutions the importance of maintaining sufficiently high standards for dealer approvals."

I think it is clear from all of the above that this committee did the best it could in a legislative way to prevent what seems, sadly enough, to have happened. Since we felt our prime responsibility was legislating, we directed our efforts toward that end. Now there is no other course but for us to investigate and that we shall do fully, fairly, and with justice.

In conclusion, I would like to add a word of caution. The FHA machinery and most of the law and most of the homes insured or that will be insured under it are sound. I feel sure that by and large its employees are honest, God-fearing, and efficient civil servants. Let us all be careful that in bringing to the light any abuses that may exist, any deficiencies in the existing law, and any maladministration or outright dishonesty or misconduct that may exist or has taken place, that there is still a great good that can, should and, I feel sure, will be accomplished by the FHA.

Let us remedy the wrongs or eliminate the possibility for abuses, and let those who have done wrong be penalized or punished in accordance with the law.

But let us be careful in not allowing these unfortunate happenings to result in greater misfortunes.

There is still a tremendous need among our people for good housing. Most of our people can only obtain such houses if the downpayment and repayment terms are reasonable and modest and are in conformity with their incomes. FHA provides the machinery to meet this need and do the job. Let's therefore resolve to make FHA function better and more effectively.

Also we must realize that the maintenance of our economic health is to a large extent dependent upon a healthy home-building industry. Let's keep it healthy and working. We can do it by eliminating and preventing abuses and by good administration. If we do our job properly, with the cooperation of industry and the public, we shall go forward, as we always have, to an even better and happier America.

The CHAIRMAN. This committee will spend this week listening to witnesses from Government and from business in an endeavor to find out how the irregularities and allegations about the various FHA programs came about.

What we are going to try to find out this week is how these irregularities and other alleged conditions could exist. We are going to try to find out from people in Government and industry how we can change the proposed legislation that is before this committee, that has already passed the House of Representatives, to avoid a recurrence of what is alleged to have happened in respect to housing in the United States.

My statement also sets forth how this committee, different members of this committee, have repeatedly, over the years, cautioned the administrators of these respective laws against the things that are alleged to have occurred recently.

For example, Senator Maybank, when he was chairman of this committee, as this statement will show, repeatedly warned against this sort of thing. Senator Bricker, as we will show by testimony, repeatedly warned against it and asked many questions about it, as did Senator Douglas and Senator Bennett and Senator Sparkman and Senator Long and Senator Frear. Even back in 1945, Senator Murdock, who was then a Senator from the State of Utah, as well as myself and others, repeatedly warned against this sort of thing happening.

Senator Tobey also gave such warning. We spent weeks, as you gentlemen know, listening to testimony just recently on this whole subject. Not once did anybody testify from the Government in regard to this. Not once did anybody testify from industry, cautioning us against this sort of thing. I can say without fear of successful contradiction, that no one in the Internal Revenue Service, the Justice Department, Mr. Cole's agency, the FHA, or the Committee on Nonessential Government Expenditures, during our 3 weeks' hearing, called our attention to any of these irregularities that are now alleged to have occurred.

We have had very little, if any, mail on the subject. As I stated a moment ago, we have continuously cautioned against it. Now we find that since this matter was called to the attention of the American people by the President of the United States, there are a lot of facts that warrant our investigating this subject. There was a lot of irregularity.

We have sufficient information already, in just a few days' investigation, to warrant that statement. However, I want to make this perfectly clear: This committee is going to spend all the time it can possibly spend during the next 2 weeks trying to find out what we ought to do to amend this proposed legislation to make certain that this sort of thing cannot happen in the future.

Every member of this committee agrees with its chairman that it is most important to every person in the United States that we do report out favorably, on the floor of the Senate, a housing bill, and that the Senate pass this housing bill, and that it become law. We are going to spend as much time as we possibly can to that end during the next 2 weeks.

After we have reported favorably to the floor of the United States Senate a new housing bill, we will then get into this investigation with the firm intention of getting to the bottom of the whole business, whether it takes 6 months or 6 years.

Senator MAYBANK. Will the Senator yield?

The CHAIRMAN. Yes, I yield to the Senator from South Carolina.

Senator MAYBANK. It is my understanding from conversation with the Senator, we intend to inspect, look into, and examine all the titles as well as either section 608 or title I. We are going through all of them. I believe there may be some wrongdoing in other titles.

The CHAIRMAN. It looks as though there possibly is. We do not have sufficient facts at the moment to come to a definite conclusion. We do have sufficient facts to know that it should be investigated 100 percent, and it will be investigated.

It may well be that the law has been weak. It may well be that part of this trouble has been due to the fact that the legislation was loosely drawn. That is what we are going to try to find out, and that is what we are going to try to do with respect to this new legislation that is before the Congress at this time: Make certain that this sort of thing cannot happen again.

I want to say, also, as will be brought out when representatives of industry come before this committee in the next 3 or 4 days, that they, too, by testimony, assured this committee that the sort of thing that has been alleged could not happen. We expect from them, in the next few days, help in respect to tightening the proposed law to the point where it cannot happen again. Every member of this committee wants to assure the building industry of America, the bankers and the mortgage buyers, everyone connected with this industry, that there will be a housing bill. That we are not going to cripple the industry intentionally. That we will come out of this hearing and our deliberations in respect to what should be done to the proposed bill with a better and a more constructive bill which will enable the building industry to do a better job than it has done in the past.

Senator BRICKER. Mr. Chairman.

The CHAIRMAN. Senator Bricker.

Senator BRICKER. May I say that in 1947, some of us called attention to defects in section 608. At that time, we wanted to limit the amount of the mortgagee's payment to the actual cost, and hold back enough to be sure that no excess would be paid over that amount, and place criminal penalties on a violation of it. There was a great protest from the Agency, itself, and from the industry. That resulted in an amendment of title VI which called attention to the Federal Housing Commissioner to the defect in the law and of the excess profits being made by builders. An amendment was drafted. Mr. Boots worked on it at that time and Mr. McMurray and several other members of the committee.

It expressly pointed out the defect that has now become so apparent and has resulted in the publicity that we have had in the last few days and weeks on this matter. In regard to the improvement loans, that is merely a breakdown, as I see it, of the Department's inspection system.

I don't know whether it is through corruption or what the facts will show, but that is not a defect of the law, as I see it. There might have been a tightening up of section 608 to have prevented it in 1947, and again when it came before the committee, as you well remember, in 1948.

Again, the Agency was warned of this defect. This committee has been alerted to its responsibility all along.

The CHAIRMAN. Gentlemen, this is the record of 1,149 alleged violators of section 608. This is the record that has been furnished the committee by the Internal Revenue Service on the direct order of the President of the United States.

You understand that that information is furnished for the confidential information of the committee and under the law, it must be held strictly in confidence, it cannot be used for any purpose other than the purpose for which the committee secured it. To that end, I think I shall place in the record a letter to the chairman from the Internal Revenue Commissioner, Mr. T. Coleman Andrews, setting forth the purpose for which these names and the information are furnished the committee.

(The letter referred to follows:)

APRIL 19, 1954.

HON. HOMER E. CAPEHART,
Chairman, Committee on Banking and Currency,
United States Senate, Washington 25, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your letter of April 16, 1954, requesting in connection with the study and investigation of loan projects under section 608 of title VI of the National Housing Act, as amended, presently being conducted by the Senate Banking and Currency Committee that you and Mr. Ira Dixon be permitted access to the income-tax returns of the corporations and/or organizations named in the list attached to your communication for the years 1942 to 1953, inclusive, and such schedules and other information as may have been compiled in the Internal Revenue Service pertaining to such corporations or other organizations.

In accordance with the provisions of Treasury Decision 6064 and the purposes outlined in the Executive order applicable to your committee permission is given you and Mr. Ira Dixon to inspect such of the returns for the corporations and/or organizations named, for the years indicated as are of record in the Internal Revenue Service.

As you know, Treasury Decision 6064 provides that any information obtained by a duly authorized committee or a subcommittee shall be held confidential, provided, however, that any portion thereof relevant or pertinent to the purposes of the investigation may be submitted by the investigating committee to the appropriate House of the Congress.

Very truly yours,

T. COLEMAN ANDREWS, *Commissioner*.

The CHAIRMAN. At this time, I wish someone would make a motion that Senate Resolution 229, in which we ask for the expenditure of \$250,000 to make this investigation, which this committee unanimously authorized the chairman to file with the Senate, and which has now been returned to the committee for committee action, be reported favorably to the floor of the Senate.

Senator MAYBANK. I will so move.

Senator BRICKER. I will second it.

The CHAIRMAN. It has been moved and seconded. Is there objection?

Senator MAYBANK. This is an amendment?

The CHAIRMAN. With a technical amendment. All in favor say "aye"; contrary, "no." The ayes have it and the chairman will report the resolution favorably to the floor of the Senate.

We will insert in the record title I of the Housing Act, and pertinent excerpts from section 608, for our information.

(The documents referred to follow:)

TITLE I OF THE NATIONAL HOUSING ACT

(Approved June 27, 1934, as amended through July 31, 1953)

HOUSING RENOVATION AND MODERNIZATION

CREATION OF FEDERAL HOUSING ADMINISTRATION

SECTION 1. The President is authorized to create a Federal Housing Administration, all of the powers of which shall be exercised by a Federal Housing Commissioner (hereinafter referred to as the "Commissioner"), who shall be appointed by the President, by and with the advice and consent of the Senate.

* * * * *

The Commissioner may delegate any of the functions and powers conferred upon him under this title and titles II, III, VI, VII, VIII, and IX to such officers, agents, and employees as he may designate or appoint, and make such expenditures * * * as are necessary to carry out the provisions of this title and titles II, III, VI, VII, VIII, and IX without regard to any other provisions of law governing the expenditure of public funds. * * * notwithstanding any other provisions of law except provisions of law hereafter enacted expressly in limitation hereof, all expenses of the Federal Housing Administration in connection with the examination and insurance of loans or investments under any title of this Act, all properly capitalized expenditures, and other necessary expenses not attributable to general overhead in accordance with generally accepted accounting principles shall be considered nonadministrative and payable from funds made available by this Act. * * * (NOTE.—A limitation of 85 percent of the income received from FHA from premiums and fees during the preceding fiscal year is fixed for such expenditures.) "The Commissioner shall, in carrying out the provisions of this title and titles II, III, VI, VII, VIII, and IX be authorized, in his official capacity, to sue or be sued in any court of competent jurisdiction, State or Federal."

INSURANCE OF FINANCIAL INSTITUTIONS

SEC. 2. (a) The Commissioner is authorized and empowered upon such terms and conditions as he may prescribe, to insure banks, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, and other such financial institutions, which the Commissioner finds to be qualified by experience or facilities and approves as eligible for credit insurance, against losses which they may sustain as a result of loans and advances of credit, and purchases of obligations representing loans and advances of credit, made by them on and after July 1, 1939, and prior to July 1, 1955, for the purpose of financing alterations, repairs, and improvements upon or in connection with existing structures, and the building of new structures, upon urban, suburban, or rural real property (including the restoration, rehabilitation, rebuilding, and replacement of such improvements which have been damaged or destroyed by earthquake, conflagration, tornado, hurricane, cyclone, flood, or other catastrophe), by the owners thereof or by lessees of such real property under a lease expiring not less than six months after the maturity of the loan or advance of credit. In no case shall the insurance granted by the Commissioner under this section to any such financial institution on loans, advances of credit, and purchases made by such financial institution for such purposes on and after July 1, 1939, exceed 10 per centum of the total amount of such loans, advances of credit, and purchases. The aggregate amount of all loans, advances of credit, and obligations purchased, exclusive of financing charges, with respect to which insurance may be heretofore or hereafter granted under this section and outstanding at any one time shall not exceed \$1,750,000.

(b) (NOTE.—Limits such insurance to obligations representing a loan or purchase to alter, repair, or improve existing structures in an amount not exceeding \$2,500 or to construct new structures in an amount not exceeding \$3,000. It limits maturity of such obligations to 3 years and 32 days, except where construction of a new structure to be used in whole or in part for agricultural purposes is being financed under title 1. No such insurance is to be granted "unless the obligation bears such interest, has such maturity, and contains such other terms, conditions, and restrictions as the Commissioner shall prescribe in order to make credit available for the purposes of this title." If "being is used to alter, repair, or convert an existing structure used or to

be used as an apartment house or a dwelling for two or more families, the obligation may be as high as \$10,000 and may have a maturity not exceeding 7 years and 32 days. Any obligation insured under title 1 on or after July 1, 1939, may be refinanced and extended "in accordance with such terms and conditions as the Commissioner may prescribe, but in no event for an additional amount or term in excess of the maximum provided for in this section" 2 (b).)

(c) (1) (NOTE.—The Commissioner is empowered to dispose of assets acquired by him in connection with payment of insurance under section 2 and to collect or compromise obligations acquired by him until the obligations are referred to the Attorney General for suit or collection.)

(c) (2) (NOTE.—The Commissioner is authorized to handle and dispose of for cash or credit, at his discretion and upon such terms and conditions and for such consideration which he deems to be reasonable, any real property acquired by him in connection with the payment of insurance under the title, and to collect all claims against mortgagors assigned by mortgagees to the Commissioner.)

(d) (NOTE.—The Commissioner is authorized under such regulations as he may prescribe, to transfer insurance from one approved financial institution to another.)

(e) (NOTE.—The Commissioner is authorized to waive compliance with regulations heretofore or hereafter prescribed by him with respect to the interest and maturity of and the terms, conditions, and restrictions under which loans and purchases may be insured under section 2 of title 1, if in his judgment the enforcement of such regulations would impose an injustice upon an insured institution which has substantially complied with such regulations in good faith and refunded or credited any excess charge made. The waiver, however, may not involve an increase of the obligation of the Commissioner beyond the obligation which would have been involved if the regulations had been fully complied with.)

(f) "The Commissioner shall fix a premium charge for the insurance hereafter granted under this section." (NOTE.—The premium charge cannot exceed 1 percent per annum of the net proceeds of a loan, advance of credit, or purchase, for the term of such obligation, and such premium charge shall be payable in advance by the financial institution and shall be paid at such time and in such manner as may be prescribed by the Commissioner. Money collected from premium charges and all other money collected as fees of any kind in connection with insurance under section 2, under title 1, and all money derived from disposal of assets taken over by the Commissioner under this insurance program, shall be deposited in an account in the Treasury of the United States. This account is available to meet operating expenses of the FHA under section 2, title 1. Amounts in such account which are not needed for such purpose may be used to pay insurance claims under section 2.)

(g) "The Commissioner is authorized and directed to make such rules and regulations as may be necessary to carry out the provisions of this title." * * *

ANNUAL REPORT

SEC. 5. "The Commissioner shall make an annual report to the Congress as soon as practicable after the 1st day of January in each year of his activities under this title and titles II, III, VI, VII, VIII, and IX of this Act."

SEC. 7. (NOTE.—Property acquired by the Commissioner under this insurance program is not exempted from local real estate taxes.)

INSURANCE OF MORTGAGES

SEC. 8. (NOTE.—This section provides a regular FHA insurance program for individual mortgages on rural housing, as distinguished from the so-called portfolio insurance provided for alteration or repair of existing structures under section 2, title 1. A total limit of \$100 million is set for the principal amount of all mortgages under section 8 outstanding at any one time, except that with the approval of the President such aggregate amount may be increased to \$250 million if it is in the public interest. Mortgages must be made to and be held by mortgagees approved by the Commissioner as responsible and able to service the mortgage properly. The mortgage cannot involve a principal amount of more than \$5,700 and may not exceed 95 percent of the appraised value as of the date the mortgage is accepted for insurance. Property covered is limited to dwellings designed principally for single-family residence approved for mort-

gage insurance before construction begins. The mortgagor may be the owner and occupant of the property when the insurance becomes effective. He must have paid for the property at least 5 percent of the Commissioner's estimate of the cost of acquisition in cash or its equivalent. The mortgagor may be a builder but in that case the principal of the mortgage cannot exceed 85 percent of the appraised value or \$5,100. In either event the Commissioner must find that the project insured shall be an acceptable risk, giving consideration to the need for providing adequate housing for families of low and moderate income, particularly in suburban and outlying areas. If the mortgagor, being the owner and occupant, establishes that his previous home of which he was either the owner or tenant, was destroyed by major disaster, as determined by the President, the principal amount of the mortgage may be increased by the Commissioner to \$7,000 and 100 percent of appraised value. Insured mortgages under this section must mature within 30 years after date of issuance. They require periodic payments not in excess of the mortgagor's ability to pay as determined by the Commissioner. They must bear interest not exceeding 5 percent per annum on the outstanding obligation. They must provide for applying mortgage payments to amortize the principal on the mortgage in a manner satisfactory to the Commissioner. They must contain terms and provisions concerning repairs, alterations, payment of taxes, service charges, default reserves, delinquency charges, foreclosure proceedings, anticipation of maturity, and other matters as the Commissioner may in his discretion prescribe.

(c) Authorizes the Commissioner to fix a premium charge for mortgage insurance under section 8, not less than $\frac{1}{2}$ of 1 percent per annum nor more than 1 percent per annum of the outstanding principal of the mortgage, without taking into account delinquent payments or prepayments. Such premium charges shall be payable by the mortgagee, in a manner prescribed by the Commissioner. The Commissioner may require one or more such premium charges at the time the mortgage is insured at such discount rate as he may prescribe not exceeding the interest rate specified in the mortgage. Provision is made whereby the Commissioner in his discretion may require the mortgagee to pay an adjusted premium charge in an amount determined to be equitable by the Commissioner if the mortgage is paid in full before its maturity date. The charge so required cannot exceed the charge mortgagee would have been required to pay if the mortgage had been insured up to maturity date. The Commissioner is further authorized to refund to the mortgagee for the account of the mortgagor all or an equitable portion of current unearned premium charges previously paid if the mortgage is paid before maturity.

(d) Permits the Commissioner to consent to release of the mortgagor from his liability under the mortgage or the credit instrument secured thereby, or consent to the release of parts of the mortgage property from the mortgage lien.

(e) Makes incontestable the validity of any insurance contract executed by the Commissioner under section 8, except in the case of fraud or misrepresentation on the part of such approved mortgagee holding the insurance contract.

(f) Empowers the mortgagee upon foreclosure to benefit from insurance similar to provisions of title 2 of the National Housing Act.

(g) Provides for the issuance of debentures to the mortgagee upon foreclosure of the property in the same manner as provided by title 2 of the National Housing Act. These debentures become obligations of the title 1 housing insurance fund created by subsection (h) of section 8. The Commissioner was directed to transfer to such fund \$1 million from the United States Treasury account under section 2 (f) under title 1.

(i) Permits investment of title 1 insurance fund moneys in United States obligations if they are not needed for current operations of FHA under section 8. They may also be used to purchase debentures issued under section 8 at as good a yield as can be obtained from United States obligations. It also provides that premium charges, adjusted premium charges and appraisal and other fees received on account of the insurance accepted under section 8 go into the fund. Debentures issued under section 8 and expenses of handling, management, renovation, and disposal of properties under section 8 are to be charged to the title 1 housing insurance fund.)

Section 9. (NOTE.—The provisions of sections 2 and 8 shall be applicable in the several States and Alaska, Hawaii, Puerto Rico, the District of Columbia, Guam, and the Virgin Islands.)

EXCERPTS FROM NATIONAL HOUSING ACT RELATING TO SECTION 608 PROJECTS

SEC. 608. (a) (Authorizes mortgage insurance under this section including advances on such mortgage during construction.)

(b) To be eligible for insurance under this section a mortgage shall meet the following conditions:

(1) The mortgage property shall be held by a mortgagor approved by the Commissioner. The Commissioner may, in his discretion, require such mortgagor to be regulated or restricted as to rents or sales, charges, capital structure, rate of return, and methods of operation. The Commissioner may make such contracts with, and acquire but not to exceed \$100 stock or interest in such mortgage, as the Commissioner may deem necessary to render effective such restrictions or regulation. Such stock or interest shall be paid for out of the war housing insurance fund, and shall be redeemed by the mortgagor at par upon termination of all obligations of the Commissioner under the insurance.

(2) (Affords priority of rental to veterans.)

(3) The mortgage shall involve a principal obligation in an amount—(A) not to exceed \$5 million;

(B) Not to exceed 90 per centum of the amount which the Commissioner estimates will be necessary current cost of the completed property or project, including the land; the proposed physical improvements; utilities within the boundaries of the property or project; architects' fees; taxes and interest accruing during construction; and other miscellaneous charges incidental to construction and approved by the Commissioner: *Provided*, That such mortgage shall not in any event exceed the amount which the Commissioner estimates will be the cost of the completed physical improvements on the property or project, exclusive of off-site public utilities and streets and organization and legal expenses: *And provided further*, That the principal obligation of the mortgage shall not, in any event, exceed 90 per centum of the Commissioner's estimate of the replacement cost of the property or project on the basis of the cost prevailing on December 31, 1947, for properties or projects of comparable quality in the locality where such property or project is to be located;

(c) (Provides for the taking of the project by the Commissioner in event of default of payment and the paying of the mortgagee under the insurance contract.)

Sec. 608. (a) * * *

* * * Mortgages otherwise eligible for insurance under section 608 of this title may be hereafter insured thereunder if the application for such insurance was received in any field office of the Federal Housing Administration on or before March 1, 1950, and for such purpose the aggregate amount of principal obligations authorized to be insured under section 608 of this title is increased by not to exceed \$500,000,000.

The CHAIRMAN. Has Mr. Powell arrived yet? Does any Senator care to make a statement while we are waiting for Mr. Powell?

Mr. Hollyday, will you come forward, please?

Mr. Hollyday, do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF GUY T. O. HOLLYDAY, LANGLEY, VA.

Mr. HOLLYDAY. I do.

The CHAIRMAN. Mr. Hollyday, do you have a prepared statement you would care to make?

Mr. HOLLYDAY. Yes, I have, Senator, and that has been distributed to members of your committee.

The CHAIRMAN. I haven't had a chance to read your statement. Do you want to read it?

Mr. HOLLYDAY. I would like to, Senator. I would like to comment a little, first, and then read it, and then I will be at your service.

The CHAIRMAN. Let me say that the purpose of this meeting today, and the purpose of our meetings this week, is not of an investigative nature at all. It is strictly to try to get from you and others in the Government and industry who have had great experience in respect of the Housing Act, your best judgment as to what we should or should not do with the pending legislation.

We will be very happy, however, to have you read your statement. We will ask you to proceed in your own way.

Mr. HOLLYDAY. Mr. Chairman and members of the committee, for the record, my name is Guy T. O. Hollyday. I reside at Langley, Va. I was Commissioner of the Federal Housing Administration from April 17, 1953, to April 12, 1954.

I think it might be helpful to the committee if I gave you a little of the philosophy that I have used while I was Commissioner. I think it is quite important.

Senator FREAR. Mr. Chairman, I wonder if Mr. Hollyday would like to give any background of his activities previous to coming to the FHA?

Mr. HOLLYDAY. Yes, sir; I will be delighted to. I think, Senator, I can probably make a presentation that would be more helpful to you if I first give you a little bit of the philosophy that I have tried to apply while I was in office, then a report on what I did in office, and then an attempt to anticipate what you gentlemen would like me to say, and then answer questions.

The philosophy that I have endeavored to put into effect I have illustrated in talks from New York City to Midland, Tex., which is that of the firefly. I have said that if it would be appropriate, I would like to put a lightning bug over the door of the FHA office for this reason:

The lightning bug has the great ability of being able to generate light without any heat. That philosophy has paid off very well, indeed, to me, as illustrated by only one incident. The rehabilitation committee of the public housing group has had three meetings, and two of those have been in my office. I felt that they felt that when I said I wanted light on housing without any heat, that that was not lip service, and they took me sincerely, and met in the office.

In my various talks throughout the country, both to my staff in the different cities and in talking to the trade, I have consistently called for criticism. It has been given and it has been extremely helpful. Criticisms have come, as I have said, from New York City to Midland. I do not think that the criticisms have come, as I would like to have them come, from Washington.

As part of that philosophy, if you call for criticism, you must have an open door. I have, on many occasions, had two meetings going on at once, and had individuals who had a complaint come to the office, and I think they have been well received on every occasion. I think there is a feeling, or has been a feeling in the FHA office that while an appointment might be desirable, it was not necessary.

In the report, which was not long, and I will read it, I have taken the point of view of a man talking about someone who might have lived 100 years ago in order to be completely dispassionate.

I am confident that you gentlemen will not assume that by my endeavor to be dispassionate that it is not a sign of indifference. I

think you understand, as I do, that you are dealing with the very priceless thing that any man has, his reputation. I hope when I get through with this statement and the questions that you have, that you will say what I believe, that there is a man, and he may have done this, and he may have done that, but he was not negligent.

In connection with the committee's study of the Federal Housing Administration, I have been asked to appear and testify and am, of course, glad to respond. The exact scope of the committee's inquiry, and the particular matters in which it is interested, were not indicated to me at the time of the request for my appearance. From press reports, I gather that the committee is interested in the administration of FHA while I was Commissioner, and, more particularly, the administration of the so-called title I program.

For the purpose of clarity, and for the convenience of the committee, I have prepared a statement, in which I will summarize the more significant activities of my administration, and especially the problems attending the title I cases.

It was my privilege to serve as FHA Commissioner for approximately 1 year. During that period, many problems were encountered which we dealt with as they arose by the most practical and businesslike methods which we were able to devise. The committee will be interested in some of the more typical of these, and how they were handled.

FHA is highly decentralized. The functions of policymaking and overall administration are carried on in Washington. The actual machinery through which the work of FHA is performed is largely in the field. There are 75 field offices, known as district insuring offices, located in every State, and now staffed with approximately 3,600 personnel. These offices are practically autonomous subject to policy and direction and review. They process mortgage applications, carry on all mortgage underwriting, issue mortgage insurance commitments, and endorse mortgages for insurance.

At the outset, it was necessary to familiarize myself with the organization and its problems with due regard to the President's program to promote both efficiency and economy. Because FHA's work is done in the field offices, as my first task I undertook to become familiar with their operations. I visited 24 field offices during the first 7 months.

In the course of the year, 45 new field directors were appointed to fill vacancies created by resignations and normal attrition. An assistant to the Commissioner, a regional director, and three Assistant Commissioners were appointed to fill vacancies which occurred during the same period. Between April 1953 and April 1954, the field personnel of FHA were reduced from 4,100 to 3,600. These figures are approximate and are based on my recollection.

With a view to improving FHA's overall efficiency and the economy of its operations, I caused an independent firm of management consultants from Philadelphia to be employed to make a job analysis and an efficiency survey. This study was conducted in the Washington office and in the Philadelphia district insuring office as an example of a field operations. This survey was completed at least 3 months ago and the recommendations it contains for improving FHA and making it a more businesslike organization, together with the comments and

suggestions of the Bureau of the Budget, are in the process of being put into effect.

During my term as Commissioner, FHA returned to the Treasury Department all funds which the Government had advanced to FHA, plus interest. The total was \$85 million, including \$65 million of funds which had been advanced prior to 1940 to start FHA in business, and \$20 million in interest. The interest was figured at a rate of 2½ percent. The Government, as a result, no longer has any cash investment in FHA.

As of the present moment, it has paid all of its operating expenses; it has repaid all advances to it by the United States Treasury, with interest; and it has accumulated over \$300 million in reserves. In addition, FHA will show an operating profit of approximately \$100 million during the fiscal year 1954.

A program was carried out to revise and improve certain procedures in FHA in order to modernize its approach to technical matters. I will refer to only a few of them.

I found that the processing of requests for technical approvals of new materials and methods constituted a major bottleneck in FHA's operations. In April 1953, this important work was more than 6 months behind—that is, it required more than 6 months after the filing of a request to obtain the necessary technical approval of a new material or a new method. In the course of the year, this work was brought up to date and it is now current. This change has been the subject of much favorable comment in trade publications.

We succeeded in devising a uniform procedure among the various field offices for insuring loans on prefabricated houses. This had been an especially difficult and thorny problem, and related to one of the very important and growing fields of housing activity. Previously, each district insuring office had developed its own procedure. There was a great deal of confusion because no two of them made exactly the same approach. Prefabricated houses are, of course, standardized and require uniform processing. The solution we developed was fully approved by the prefabricated housing industry.

There was also the problem of modernizing the criteria for design, specifications, and construction techniques. These had been standardized and even "frozen," in some instances, for 20 years. FHA had been subjected to considerable criticism by architects and technicians on this account. In order to bring this aspect of FHA's work into harmony with the rapid progress in the housing field during the last 20 years, a special treatment of the problem was developed.

A new job classification which may be described, briefly, as that of architect-engineer, is being established to have charge of design standards, specifications, and construction techniques. The recommendation has been finalized and is before the Civil Service Commission for approval as one of the top jobs in FHA. I had hoped that one of the leading men in this field in the country would take the position; in fact, he promised me to take it if he had the opportunity, and expected to do so.

A program was developed to make FHA effective in neighborhood conservation. The objective of this work is the anticipation and prevention of neighborhood deterioration. A special committee was by FHA to evolve a program for this purpose, and its recommendations were submitted to the FHA Commissioner.

soon thereafter, the President's Advisory Committee on Government Housing Policies and Programs was formed.

When the committee requested FHA's views and recommendations on this subject, we were ready, and supplied the President's Committee the report and recommendations of our committee. These recommendations were accepted, and are now incorporated in the proposed new section 220 of the National Housing Act which is before the Congress for consideration. This new section is generally acknowledged to be an essential element in the new urban renewal program.

Other steps were taken with a view to making FHA a more effective instrumentality of the policy of Congress and the President. Among these, to cite only two examples, were the issuance of an order to redeem all callable outstanding debentures, amount to \$67 million, effective June 1954; and the establishment, about 6 months ago, of liaison with the Public Housing Administration through a full-time technical assistant to the FHA Commissioner, in order to develop bases for cooperation between the 2 agencies and to assist PHA in disposing of its real estate.

If I may be permitted to say so, Mr. Chairman, I look back at these steps with a sense of accomplishment and a feeling of pride. I know that every one of them strengthened the FHA and improved its function, and that fact has been generally acknowledged.

So far as I have been able to learn, the committee's concern has been aroused by published reports of abuses and questionable practices under title I and section 608. These are separate and distinct problems, and I would like to discuss them separately, in that order.

Title I, first enacted in 1934, relates to the insuring of commercial loans to homeowners for repairs and improvements. It constitutes a very large part of FHA's work. More than 17 million such loans have been processed and insured, totaling \$7 billion and involving 6,000 lenders.

Senator DOUGLAS. Mr. Hollyday, would you permit me to ask a question, there? If my arithmetic is correct, your figures would seem to indicate that the average loan amounted to only \$400.

Mr. HOLLYDAY. The average loan, Senator Douglas, last year, was \$590. I am a little bit liberal in these figures, because they are from collection and not from the record.

Senator DOUGLAS. So that it was less than \$600?

Mr. HOLLYDAY. Yes, sir.

Senator DOUGLAS. And that created some of the administrative problems, because you had a large number of loans, each one of which was of small size?

Mr. HOLLYDAY. Yes, sir, that is entirely correct, Senator. It averages about 2 million loans a year.

The CHAIRMAN. If the Senators will speak into the microphones, the people in the audience and the press can hear what is said.

Mr. HOLLYDAY. It is entirely wholesome in principle, and is a highly desirable program from a standpoint of national housing policy.

By its very nature, title I has presented a policing problem from inception in 1934. It was one of the first problems which demanded my attention. Eight days after becoming Commissioner, I testified before the subcommittee of the Committee on Appropriations of the United States Senate.

At that time, in the discussion of FHA's administrative budget, I called attention to some facts that Mr. Greene, my predecessor, had brought to the attention of the House Appropriations Committee a few weeks earlier. As a result of personnel cuts, day-to-day accounting work, supervision, and control were falling behind at a seriously increasing rate.

Senator MAYBANK. May I ask a question, there? How many investigators under title I did you have?

Mr. HOLLYDAY. Senator Maybank, at the time this appropriation was called for, there were 3 men to cover the United States, not only title I, but to cover all the investigations for the benefit of the Department of Labor to see that prevailing wages were enforced, and to check the personnel of 5,000 employees scattered in 48 States.

Senator MAYBANK. Prior to that cut, there were never more than five engaged, were there?

Mr. HOLLYDAY. Senator, I don't know what they had before I came here.

Senator MAYBANK. In other words, you had 3 people to look after 17 million loans?

Mr. HOLLYDAY. That is only part of it, Senator.

Senator MAYBANK. How many people did you have on title I?

Mr. HOLLYDAY. The 3 people, Senator, had to not only look after title I, but they had to look after anything that went wrong with 5,000 employees, and their character, and they had to work for the Department of Labor to make sure that throughout the United States, in all multiple housing, the law was being obeyed with respect to the payment to laborers of the prevailing rate.

The CHAIRMAN. You could also call on the HHFA staff, could you not? Either Administrator Cole or Administrator Foley. You could call on them, could you not?

Mr. HOLLYDAY. Our staff, Senator, was for our purpose and for handling FHA matters.

The CHAIRMAN. But they had a small staff that you could have called on?

Mr. HOLLYDAY. I don't know what their staff was, and it was never used.

The CHAIRMAN. We are trying to get the facts, here, and see what we ought to do to avoid recurrence of what has been alleged. I see Mr. Greene back there.

Mr. Greene, how many inspectors did you have when you were Administrator? Will you answer that, if you can?

Mr. GREENE. As Mr. Hollyday said—

The CHAIRMAN. He said he had three. How many did you have?

Mr. GREENE. We had three.

The CHAIRMAN. You had three, too?

Mr. GREENE. When we had to police the prevailing wages, we had to take all of our inspectors and put them on that work, and for a year or more no inspector handled any title I matters.

Senator MAYBANK. Is it not a fact that this inspection or check was supposed to be made locally and that the lenders should have looked more closely into these moneys that they loaned, in an effort to see what was being done?

They got commissions for doing it, didn't they?

GREENE. That is right, and in the majority of cases, the lending institutions did a very acceptable job.

MR. MAYBANK. I agree thoroughly. I am not condemning. I am just leading up to the fact that some didn't do so well. Right?

GREENE. That is right.

CHAIRMAN. Let me ask you this question, Mr. Hollyday. Did you call this matter that you call an inefficiency or deficiency to the attention of this committee?

HOLLYDAY. Yes, sir.

CHAIRMAN. On what occasion?

HOLLYDAY. Eight days after I got here, I called it to the attention of the Subcommittee on Appropriations.

CHAIRMAN. Did you ever call it to the attention of this committee, the Senate Banking and Currency Committee?

HOLLYDAY. The record will show—I do not recall, Senator, that I did.

CHAIRMAN. You will find that you did not, because we have checked the record pretty carefully.

MR. DOUGLAS. Mr. Chairman, would you permit me a question?

CHAIRMAN. Senator Douglas. If everyone who wants to speak a question will address the Chair, then I will address you and you will know who is speaking.

MR. DOUGLAS. That is correct.

I ask what was the procedure in the local investigation of loans under title I? Were those inspections to be made by the local office or where they to be made by the lender, Mr. Hollyday?

HOLLYDAY. I thought you were looking at Mr. Greene, Senator.

MR. DOUGLAS. No, I was looking at you.

HOLLYDAY. Where there was a complaint, it was sent to the lender's office.

MR. DOUGLAS. In Washington?

HOLLYDAY. In Washington; yes, sir.

MR. DOUGLAS. But in the absence of a complaint, who certified repair jobs as being entitled to an FHA loan?

HOLLYDAY. That was an automatic procedure established, Senator, in all cases. The operation is a decentralized one and left to the local lenders. We were not called in unless there was an allegation of an irregularity.

MR. DOUGLAS. In other words, you accepted the approval of the lender?

HOLLYDAY. Yes, sir.

MR. DOUGLAS. Without rigid inspection by FHA. You only had an inspection after complaint, and then this was done nationally, rather than locally, am I correct in that?

HOLLYDAY. Yes, sir.

MR. LEHMAN. May I ask a question, Mr. Chairman?

CHAIRMAN. Senator Lehman.

MR. LEHMAN. When you appeared before the Appropriations Committee and made recommendations to the committee that you had three men assigned to this work, did you ask for a larger staff to do this particular activity?

HOLLYDAY. Senator Lehman, I asked for it and I got it. I am going to show what happened in that connection.

Senator BRICKER. Mr. Chairman?

The CHAIRMAN. Senator Bricker.

Senator BRICKER. Mr. Hollyday, was there any local inspection at all in the local offices of the lending authority, of the utilization of the funds that had been loaned?

Mr. HOLLYDAY. We did not, I believe, Senator, inspect institutions that are Government-inspected. There were some 930 unsupervised institutions when I came to the FHA, and I pointed out to the Appropriations Committee that during the previous year there had been only 9 inspections of the 930 unsupervised money lenders, and I said to that committee that I felt that that was like the shoemaker not putting shoes on his children, because the only way this insurance agency could protect itself was by having more inspectors.

I am pleased to report we did get an increased number of men to do that particular kind of inspecting. That was auditing of those accounts.

Senator BRICKER. You are talking of title I, improvement loans?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. Mr. Hollyday, I think it was your predecessor who reported in his annual report to either this committee or the President that he had only received, the year before, 253 complaints in respect to title I, and that they had dropped to 183 that year. He was congratulating himself on the few complaints. Is it not a fact, now, that you know and we know and the Attorney General of the United States knows that literally hundreds and hundreds and thousands of complaints were made?

Mr. HOLLYDAY. If that is known to the people that you speak of, it has not been brought to my attention.

The CHAIRMAN. It was a statement. We will put it into the record. This was at a hearing. In the year for which they were reporting, they said it had been reduced to 183.

(The material referred to follows:)

EXCERPTS FROM STATEMENT OF RAYMOND M. FOLEY, ADMINISTRATOR, HOUSING AND HOME FINANCE AGENCY, ON SENATE RESOLUTION 26, FEBRUARY 2, 1953

DEALER RELATIONSHIPS

Lenders are required to select carefully the dealers from whom they purchase notes or with whom they cooperate in making loans directly to borrowers, and to maintain a constant review and supervision of the business generated by such dealers. The dealer's background and previous record must be thoroughly investigated by the lender through financial and trade channels, competitors, and credit-reporting agencies. If the dealer has been doing business with another lending institution, inquiry must be made as to the reason for changing his connection. Consideration must be given to the dealer's ability to perform work satisfactorily.

In addition to obtaining information from the dealer, the lending institution is required to interview personally regarding his proposed title I operation; to obtain a report; to make a direct contact by letter or telephone on the dealer's part; to establish (by checking precautionary measures) that the trade style, principal, and sale necessary to handle the dealer's place of business by these means and paper, approved by the lender has been

The financial institution must maintain a separate record on each dealer. This record must contain the original investigation by the lender as well as its approval, and must also show the number of credit applications submitted by the dealer, the number approved and rejected, the number of claims and a summary of spot checks, service complaints, and items of special interest.

Occasionally FHA will receive a report that a dealer has committed an irregular or unethical act in connection with a title I transaction. Such advice usually comes in the form of complaints registered by homeowners which may be relayed through lending institutions or received direct by the FHA. All reports are investigated by FHA field personnel, or, in some instances, by the lending institution involved. Any dealer whose operations are found to be contrary to the standards and requirements of the title I program is placed on notice that restrictive administrative action will be taken unless the deficiencies are corrected. If the dealer fails to cooperate, all insured lenders are notified that future business originated by the particular dealer will be acceptable for insurance only if the lending institution takes certain precautionary steps such as verifying credit information, having the completion certificate signed in the presence of an employee of the institution, and making an actual inspection of work performed on larger loans. Experience has shown that such action almost invariably has had the effect of protecting homeowners from any further abuses on the part of the dealer involved.

During 1951, FHA issued precautionary measures letters in 273 cases. During 1952, the number of such letters dropped to 185, indicating that definite progress is being made in eliminating undesirable dealers from the program. I feel that this progress is due in part to FHA's continued efforts to impress upon lending institutions the importance of maintaining sufficient high standards for dealer approvals.

* * * * *

The CHAIRMAN. For example, we find throughout all the reports a tendency on the part of the administrators and those handling this matter, when they came before our committee, to clamp down.

I am trying to find out whether there were thousands and thousands of cases, as have been alleged.

Mr. HOLLYDAY. If there were, Senator, those complaints have been available to you, and I would recommend that you bring Mr. Murphy of my office up here. I made pretty clear, in a somewhat colloquial fashion—

The CHAIRMAN. We have had a session with the Attorney General and they tell us of hundreds and thousands of instances that they have had. They have been working on them for many years and have had many prosecutions already.

Mr. HOLLYDAY. Yes, sir, I think that is the procedure. That is not for us to cover, with three people. I think, Senator, you see that would be utterly impossible.

The CHAIRMAN. Our point is, what we want, if we can get it, without being critical, is help from you and Mr. Greene and Mr. Foley and Mr. Cole and others, and the Internal Revenue Service and the Attorney General, as to just how widespread these allegations are. We want to do something in this pending bill to correct it, to see that it doesn't happen again.

I want to say, but I hate to say, that the tendency has been to play it down. At no time has anyone ever recommended any amendment to title I. It has remained pretty much the way it was written back in 1934.

Mr. HOLLYDAY. Senator, I think you will see that I not only recommend, but I put into effect a half-dozen very important changes in these procedures and that I pled—

The CHAIRMAN. You mean from an administrative standpoint?

Mr. HOLLYDAY. Yes, sir. I pled with the proper authority to give me enough people to do a better job than we were doing.

Senator BUSH. Mr. Chairman?

The CHAIRMAN. Senator Bush.

Senator BUSH. You speak about these local lenders. Who are they?

Mr. HOLLYDAY. Senator, they are mostly banks.

Senator BUSH. Commercial banks?

Mr. HOLLYDAY. Commercial banks, State and National. They do a tremendous volume of business, a little bit with the individual homeowner, but mostly with builders.

Senator BUSH. If a homeowner wants to get a loan for rehabilitation, is it the normal thing for him to do to go to a bank?

Mr. HOLLYDAY. Usually he checks with the people who do that kind of work.

Senator BUSH. Checks with the contractor?

Mr. HOLLYDAY. Usually, yes, sir.

Senator BUSH. Or a dealer?

Mr. HOLLYDAY. I would say indefinitely we will offer 90 percent of the cases—these are dealer-operated loans that we are talking about.

Senator BUSH. Then does the dealer or contractor, likely, send him to a bank to make the loan?

Mr. HOLLYDAY. No, sir, the procedure is shortened. The dealer knows the procedure and he presents an FHA form to the man or woman to sign and says, "Now, here is this particular form. I am going to put on these window blinds or whatever it is, and when we get through, I am going to get you to come back and certify that that job was properly done."

As I point out a little later, one of the problems was that there was no enforced delay, so that this high-pressure fellow could go to the man, make a deal, go right to the bank, not tell the man that the bank was concerned in the property at all, get money from the bank and move on, whereas under the provisions that are now in effect, there has to be a waiting period so that in the meantime, the man now, for the first time, gets a notice from the bank that the bank is in the picture, and it gives the man a chance, if there is anything wrong, to go to the bank and say, "I am not going to sign that because it wasn't done right." It brings the bank into the picture.

Senator BUSH. Does it bring the bank into the picture with the responsibility of determining whether the loan is for a fair amount or not?

Mr. HOLLYDAY. The responsibility is on the banker, and we make him agree to examine the dealer and check on him and check on his record and be responsible to him. We do that, now. In fact, we go so far as to say that if a loan is bad, the builder, the contractor, will have to repay the money to the bank.

In other words, we are enforcing, as I will point out in a minute, a new procedure to get the bank to act as its own policeman under the penalty of cancellation from us. It would be utterly impossible to inspect 2 million loans a year, even if that was all that staff had to do, and they had 20 times that many. It has to be decentralized, and it is now working, we understand.

Senator BUSH. The point I am trying to get at is that it doesn't seem to me that there has been any real responsibility in connection

with making the loan like there would be on another guaranteed loan if a bank were going to make it.

In other words, if a bank were going to make a loan to an individual without a Federal guaranty, it would certainly check the credit of the individual and size up the loan and make sure it was a worthwhile loan and a worthwhile project. It seems to me that the procedure which is followed, and which you have described here, and which the law provides for, does not provide for those ordinary, commonsense business checks before the loan is made. Is that right or not?

Mr. HOLLYDAY. Senator, there is a great deal of freedom on the part of the lending institution.

Senator BUSH. That is because there is a Federal guaranty on the loans, so they don't have much risk of loss or any risk of loss; is that right?

Mr. HOLLYDAY. I think that is a very important part of this picture. What we do is to make the bank enter into an agreement whereby they will take those steps. If they don't take them, we have the right to cancel them. Our connection with the bank has to be used very carefully, because the cancellation of a contract with a Federal agency could start a run on a bank, but we find that there is real cooperation and, particularly when we enforce that cooperation, it prevents some of the wideawake and uninformed branch bank managers from making too many deals that, frankly, they should not have made, in an effort to make a record.

Senator BUSH. But up until recently, at least, there has been virtually no restraint upon the bank, no compulsion that they should see that they are making a sound loan.

Mr. HOLLYDAY. No, Senator; that very definitely is a statement I could not go along with. There has been a procedure. It didn't work as well as it should. Without stopping the business, you could put so many restrictions on that you could stop the business and they would say, "Well, we will just go ahead and do this ourselves."

We put enough restrictions on—and I will point that out in a minute—to not injure the business, but to tighten up a great deal on the barn door before the horse was stolen, and not spend our time trying to catch the horse with very few policemen, after the horse had been stolen.

Senator BUSH. Do you intend to make any recommendations to the committee for any changes in the law that will require a tighter supervision in connection with making these loans?

Mr. HOLLYDAY. I certainly do not.

Senator BUSH. You don't intend to do that?

Mr. HOLLYDAY. No, sir. I think that what we have done in conjunction with the trade and upon their advice with the people that administer this—and they are the experts. They agree that this will work.

The CHAIRMAN. Mr. Hollyday, did you say that you feel that the law is strong enough and good enough and should not be amended?

Mr. HOLLYDAY. I think the problem is an administrative one.

The CHAIRMAN. Then you have no recommendations whatsoever for strengthening the law?

Mr. HOLLYDAY. I recommend the law be let alone.

The CHAIRMAN. Just as it is?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. Don't you know that this law was passed in 1934 by Congress and became a law in January of 1935, and its specific purpose was just one—to create jobs?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. It was a depression measure. At the time, it was specifically stated that it was to be for just 2 years, and 2 years only.

Mr. HOLLYDAY. Senator, that is a pretty important part of the economy, and the people who run it or are interested in the economy have worked with us to provide administrative control, which I think is the proper way to do it.

The CHAIRMAN. I am not being critical. We want to get your opinion. Your opinion is that the law does not need any change?

Mr. HOLLYDAY. I didn't say that, Senator. I want to say that I would let the law alone. I don't know that any law might not be improved, but I wouldn't ask for it.

The CHAIRMAN. I didn't intend to intimate that we would eliminate the law. I will put my question to you again. Do you think that the law ought to be amended in order to eliminate, as far as possible, the irregularities that have been occurring?

Mr. HOLLYDAY. No, sir. The trouble is not with the law. The trouble is with the absence—

The CHAIRMAN. The administration?

Senator BUSH. Mr. Chairman?

Mr. HOLLYDAY. With the absence of people to do the policing.

The CHAIRMAN. Then the trouble has been with the administration of the law?

Mr. HOLLYDAY. The administration and the absence of enough people to do the job.

The CHAIRMAN. Yes.

Senator BRICKER. Mr. Chairman?

The CHAIRMAN. Senator Bricker.

Senator BRICKER. May I ask just one question? Do you think that the penalty sections, as applicable to title I, are adequate for the protection of the public against the misuse of the money?

Mr. HOLLYDAY. \$5,000 and the penalty of being cut off by a Federal agency of an ability to take advantage of it is, in my opinion, ample.

Senator BRICKER. Then it comes to a matter of enforcement.

Mr. HOLLYDAY. Yes, sir.

Senator BUSH. Mr. Chairman, I would like to pursue that just a bit further.

The CHAIRMAN. Senator Bush.

Senator BUSH. In connection with these loans, what form does the Government guarantee take? Does it guarantee each loan or the portfolio of loans?

Mr. HOLLYDAY. The latter is correct, sir.

Senator BUSH. Do you think it would strengthen the situation and make the banks or lending institutions more responsible if the guarantee applied to a portion, say 80 or 90 percent, or whatever percent, of each individual loan, rather than to the total portfolio, so that the bank has a stake in checking each individual loan?

Mr. HOLLYDAY. I think it certainly would. As to whether it would workable, I don't know enough about the business.

Senator BUSH. If they guaranteed the portfolio, it would certainly be just as feasible to guarantee each individual loan so that the bank, in making a loan, would make a loan just as it makes unguaranteed loans. It would at least realize that it has some of its own money at stake in this proposition.

Mr. HOLLYDAY. I tried to get that same result in a little different way, and so far, I have not been able to accomplish it. I asked these gentlemen if they would not coinsure, with the Government, starting off, say, at about 5 percent, those that had very good record. It wouldn't cost them anything. Those that weren't as careful as they should be, would be denied insurance. On a loan where there would be a \$300 fee and 5 percent loss would only be \$15 against that particular account. I think that is what you are driving at.

I couldn't sell it to them. They said it would interfere with their bookkeeping. They felt very definitely, as experts in consumer banking, that the recommendations that we put in after a study with them for a number of months, with the seven vice presidents of banks that had specialized in consumer banking—they said, "We think this thing will work."

It went into effect December 1, and if they know their business, and I think they do, it should work.

Senator BUSH. Let me ask one more question. If a bank has outstanding \$100,000 worth of these small loans, let us say, what is the maximum loss that the bank could sustain under the circumstances?

Mr. HOLLYDAY. They are protected up to \$10,000. That is, 10 percent of their portfolio, the amount that they have put in. They get 10 percent on each loan that is made. As it goes on, I will not get into the mathematics of it and I am not too sure that I know.

Senator BUSH. Well, 90 percent of their loan is at risk, if you take it at one loan. They have got 90 percent of their whole portfolio at risk. The other 10 percent is guaranteed by the Government. Is that right?

Mr. HOLLYDAY. I can't say that is correct, because that 10 percent builds up. It is 10 percent at any one time, but at the end of 5 years, you are getting the benefit of that reserve until it gets so large that we cut it off.

Senator BUSH. So the guarantee is cumulative as time goes on and their protection goes to protect the banks against future losses; is that right?

Mr. HOLLYDAY. The banks just don't have losses, Senator, under this deal. Our claims over the entire period would average about a dollar and ninety cents. As of the present time, the claims, themselves, are only running 0.78 percent. They just don't lose.

Senator BUSH. So while the loans may have been too large, as seems to be the case, in connection with improvements, nevertheless, the credit has been good enough so that the total losses haven't amounted to very much?

Mr. HOLLYDAY. It is a very profitable operation for both the banks and the institutions, but there is no—I have never heard that there has been overselling. That is one of the troubles. There has been misrepresentations and overselling. The average last year was \$590.

Senator BUSH. So that the burden of the overlending has been absorbed by the borrower, by the fellow who wants to improve his home?

Mr. HOLLYDAY. There is no overlending. It is a question, maybe, of overselling, but not overlending.

Senator BUSH. Well, overpricing or overlending. If it is overpriced, it is overloaned, because the loan is presumed to cover the amount of the improvement.

Mr. HOLLYDAY. Your protection there is the individual's credit. The problem arises from misrepresentation of what the thing will do and improper workmanship, in some cases, and then, basically, it is an overselling operation and misrepresentation of the dealer.

We have tightened that up very materially, so that the bank now has to be very responsible and can't do business with a dealer who doesn't work responsibly.

The CHAIRMAN. Mr. Hollyday, of course, there is no question but what the banks are protected almost up to 100 percent. There is no question about that. But the problem involved here has been the people that borrowed the money, the homeowners. They are the ones that have been complaining, because naturally, if they borrow the money, they have to pay it, because they are good for it. If they do not pay their debts, somebody may sue them.

Senator MAYBANK. Will the chairman yield?

The CHAIRMAN. The thousands of complaints that have been called to my attention by different departments of the Government show that it is the public or the homeowner who has been hurt. Is that correct?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. Not the banks.

Mr. HOLLYDAY. Yes, sir, absolutely.

The CHAIRMAN. I want to ask you one question again. You said a moment ago that in your opinion it was not necessary to change the law, title I.

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. That it was a good law?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. And that the problem was one of administration?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. And that up to this time you haven't had sufficient people to police it?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. That is one of the weaknesses of it?

Mr. HOLLYDAY. Very definitely so.

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. Mr. Chairman, I want to return to this question of inspection for a minute. I have been told that in most cases, the lender will pay the money to the building firm only when the homeowner, himself, signs the FHA form that the work has been completed to his satisfaction. Is that correct?

Mr. HOLLYDAY. Yes, sir.

Senator LEHMAN. Under those circumstances, is it not a fact that the certification of the homeowner seems to be substantially the only inspection applied to title I?

Mr. HOLLYDAY. Yes, sir, that is correct.

Senator LEHMAN. The banks or the FHA do not make any inspection whatsoever to determine that the homeowner has received value mortgage or the obligation which he has assumed?

Mr. HOLLYDAY. Insofar as FHA is concerned, Senator, that is entirely correct. With regard to the bank, wherever the loan, I understand, gets in the neighborhood of \$1,000, the banks do make inspections. The procedure, though, normally, on these average loans, the banks do not. They rely on their knowledge of credit, and they do not make inspections.

Senator LEHMAN. May I pursue that for a minute more? In the case of many homeowners who haven't any particular mechanical aptitude, which would be the case if I were a homeowner and seeking a loan, there is no way of his judging whether the amount of a proposed repair improvement actually is represented by the services that have been rendered on which he assumes a mortgage responsibility. He can't tell, in many cases, whether a job is worth \$1,000 or \$500. Yet, if the bank will buy the mortgage, guarantee the mortgage, or take the mortgage and make payment on his certification to the builder, he is under obligation to repay \$1,000. Is there no protection whatsoever provided to him by the FHA or by the lending institutions?

Mr. HOLLYDAY. Senator, as to his judgment between whether to have this work done by the ABC company or the XYZ company, or to have it done at all, or whether the washing machine that he is buying ought to be bought from one person or another, he is under the same situation as he would be if he went to the department store and bought something. It is his choice. No, sir.

The CHAIRMAN. Let's correct the record. There is no mortgage given in this instance. There are straight notes, but they are not chattel notes, they are not mortgage notes.

Senator LEHMAN. No, but there is an obligation on the homeowner to pay.

The CHAIRMAN. That is correct. There is no mortgage.

Senator LEHMAN. It is a binding obligation.

The CHAIRMAN. Oh, yes, it is a binding obligation, but there is no mortgage.

Mr. HOLLYDAY. I have treated that in the way the chairman has indicated.

Senator MAYBANK. Mr. Chairman?

The CHAIRMAN. Senator Maybank.

Senator MAYBANK. Might I add that we have been told that in some instances the commissions on these sales amounted to 33 $\frac{1}{3}$ percent. There are a lot of things that were bought by consumers that they paid 33 $\frac{1}{3}$ percent commission on. We were told that by the Justice Department.

We can't correct that in some sort of legislation, a 33 $\frac{1}{3}$ percent commission?

Mr. HOLLYDAY. Senator, no. You can't protect somebody that overbuys or gets overcharged that is going out and buying a refrigerator or a front door.

Senator MAYBANK. But this is a Government-guaranteed loan.

Mr. HOLLYDAY. The Government guaranty is to the bank, that if they behave properly and do a sensible job, there is no possible way that we can protect an individual against himself from overbuying.

The CHAIRMAN. Mr. Hollyday, we have got to find a way to do it. When these salesmen and dealers and bankers go to these homeowners

and say this is FHA, meaning it is the Government, then these people, I think, have a right to believe that they are going to be treated honestly and squarely, and that the American Government is behind it. That is the weakness of it. I would agree with your statement, if it were a straight business deal. But here the Government is entering into it. We have got to find some way to protect these homeowners.

Mr. HOLLYDAY. Senator, the Government cannot stand at this woman's door and protect her from overbuying on a \$500 deal.

The CHAIRMAN. No, of course they cannot. But we have some ideas when we get through on this. Senator Frear.

Senator FREAR. I would just like to ask Mr. Hollyday, Mr. Chairman, what agreement does the FHA enter into with a commercial lending institution regarding these FHA title I loans?

Mr. HOLLYDAY. Suppose I read it.

Senator FREAR. I would just like to have a brief explanation by you. Is it written or is it oral, or do they have to sign a contract?

Mr. HOLLYDAY. It is a very binding and tight agreement with every one of them.

Senator FREAR. And you do that with each lending institution?

Mr. HOLLYDAY. Oh, positively.

Senator FREAR. In the guaranty or the insured part of the portfolio, as I understand it, it is a combined aggregate of loans made by this particular lending institution which the Government insures, and they take an insurance of 10 percent of the portfolio, not 10 percent of each individual loan?

Mr. HOLLYDAY. That is correct, but there is a gradual writeoff, the workings of which I don't know, which keeps from building up to a point where the bank has 100 percent reserve.

Senator FREAR. That is what I am leading up to. Suppose that any lending institution was wiped out 100 percent as of X day or a particular day. They would not lose 90 percent had they been in business over a period of time and had accumulated some reserves. You would permit them to offset this loan, to take the accumulated reserves plus the 10 percent FHA-guaranteed money?

Mr. HOLLYDAY. Adjusted over a period of years, because if we didn't adjust it, in 10 years time it would be 100 percent, so we pull it down. The way we pull it down, I don't know.

Senator FREAR. But at that X-day, whatever that amount was, if you had not adjusted it recently, you would permit them to take that reserve against any loss up to that point?

Mr. HOLLYDAY. Yes, sir.

Senator FREAR. Plus the 10 percent that you guaranteed?

Mr. HOLLYDAY. The loss is set up against their accumulated 10 percent of the business that they do from time to time. That gradually builds up and up.

Senator FREAR. Yes. In their past reserves of a \$100,000 portfolio, as was or Bush, if they had built up \$13,000 worth of complete loss, the only loss that they would be 100 percent, or \$100,000, and the institution would suffer a loss of

bit simpler? Suppose there is \$10 in their portfolio. They have a \$3,000 reserve.

Senator FREAR. That is right. But what I am trying to get up to something where the bank would have a loss. In that instance if you cite, the bank would not have a loss.

Mr. HOLLYDAY. The individual losses would be charged against the full reserve, and if there were a couple of substantial losses, you would wipe out the reserve, particularly in the early years.

Senator FREAR. To answer my question, you have stated that the banks apparently have not had losses on the 10 percent insurance or guaranty, to which I agree. But suppose that something should happen to these loans and the time would come when you would not be able to pay back all of your Government money plus interest on an insured basis, and some loss would be sustained. Then the lending institution is subject to a loss, is it not?

Mr. HOLLYDAY. Yes, sir. In such a case, they do become a co-insurer. I am sorry sir, I didn't get your point earlier.

Senator FREAR. That was the question. You had proposed the plan of a co-insurer?

Mr. HOLLYDAY. I did, and it seemed to the banks, as of the present time, at least, a little unworkable because of the cost of bookkeeping. When you are dealing with 2 million loans a year, any change in bookkeeping and any change in the procedure of consumer banking—any just won't apply it.

Senator FREAR. Just one final question, Mr. Chairman.

The CHAIRMAN. Senator Frear.

Senator FREAR. Let us assume a person owns a house valued at \$1,000, with no mortgage on it, and they want to do a repair job on it.

They come to FHA for a guaranty, or an insured part of that mortgage, and it is estimated that the repair costs will be \$2,000. The bank, or the lending agency, if it is insured by FHA, does not put a mortgage on that property.

Mr. HOLLYDAY. Not under title I.

Senator FREAR. That is what we are speaking of.

Mr. HOLLYDAY. I can assure you, Senator, they would certainly make an inspection and see that the work that was going to be done that they were protected for was—and that the credit was good. They would look into any case where, as the thing Senator Capehart was arrested in—when you get above \$1,000, these institutions check on the whole deal. To that extent, they give protection to the homeowner.

Senator FREAR. But someone who owned a \$10,000 house and asked for an FHA-insured rehabilitation mortgage on it of \$2,000, they would certainly say that the property is worth \$2,000, even though the amount spent on it or the cost of the rehabilitation was only \$1,000.

Mr. HOLLYDAY. Yes, sir.

Senator BUSH. Mr. Chairman, I have one more question on this same point.

The CHAIRMAN. Senator Bush.

Senator BUSH. Let me see if this is right, Mr. Hollyday. If a bank carries a portfolio of these loans of approximately \$100,000, turning it over, and it averages \$100,000 over a period of 10 years, that insurance guaranty fund would set up at the rate of 10 percent a year, so that at the end of 10 years, the bank might have a reserve of guaranty in the amount of \$100,000? Is that right?

Mr. HOLLYDAY. No, sir, it isn't. It would if we did not do what we are doing and that is, as you go along, we take down an average of about

20 percent a year. We take that down so as to not have a reserve built up that would make it impossible for the bank to have a loss if we didn't cut down.

Senator BUSH. On the basis of taking it down at the rate of 20 percent a year, at the end of 10 years, it wouldn't have \$100,000, but it would have \$80,000?

Mr. HOLLYDAY. Well, if you adjust each year's business on an accrual takedown, I don't know the ratio that we apply. But the banks have complained and some of them have dropped out of business because we do what I am talking about to such an extent they say, "We don't have enough reserve."

I don't know enough about the business to tell you what we do, but we apply the system to such an extent that some of the banks claim they don't have enough reserve. The details, I am afraid you would have to get from the staff.

Senator BRICKER. Mr. Chairman?

The CHAIRMAN. Senator Bricker.

Senator BRICKER. Just one question. You mentioned a moment ago when you were talking about the coinsurance that you were insisting upon getting at 5 percent, you said you had a conference with 7 of the banks. What were those banks?

Mr. HOLLYDAY. We picked seven. I know them by people rather than by the names of the banks. They were from Chicago, Memphis, San Francisco, New York, and Minneapolis. They were the vice presidents of these respective banks that specialized in consumer banking. They are the ones who do a great deal of business with us. It is a pretty highly standardized and specialized form of banking. These men were most helpful, Senator, when I pointed out to them the problem that we were facing, which is the one we are now discussing right here, which I did in June. They set up these precautionary measures which had not been used before, and which are now in effect, and which went into effect December 1, and which they thought were very good indeed.

In fact, they were presented to the President's Advisory Committee on this point, and they said, "This setup you have made is sufficiently good. You can stop and need not work further on the problem." That is what I was about to get into.

The CHAIRMAN. Mr. Hollyday, we don't need to worry about the banks. They are fully protected under this. We don't need to worry about them at all. The Government, I think, is pretty well protected, too. The problem is to avoid having the homeowner, the public, fleeced out of a lot of money. That is our problem and that is where we want your help. How can we set this thing up, how can we write the law to avoid property owners being in trouble?

For example, a man just stepped up to me a minute ago and would like to testify, and I think we will let him testify later, on how he was fleeced out of \$1,400 right here in Washington, right under our noses, your nose, and other people's noses. I don't know what happened. He didn't say. We are getting hundreds, and I am afraid it will run into thousands and thousands of cases. I had a meeting with Justice Department Friday. What I can't understand is why the departments of this Government have not called this to the attention of this committee.

They never have called it to the attention of this committee.

Senator BRICKER. They hid it.

The CHAIRMAN. In fact, it has been the opposite. The departments that have been appearing before this committee have played it down and denied it. I am not being critical. You have only been there a year and this has been going on since 1935. There is nothing new about it.

Mr. HOLLYDAY. I would like to tell you what I have done about it.

The CHAIRMAN. We want to listen to it, but I just want to make certain that we don't get off onto the banker angle. The banker is well protected.

Mr. HOLLYDAY. The banker is the man you have to use, Senator, to keep the fellow from fleecing the woman.

The CHAIRMAN. What I want to find is some way to protect the people. That is the job of Government. The job of Government is protecting its people against the unscrupulous.

Mr. HOLLYDAY. Yes, sir, I think that is exactly what we have.

The CHAIRMAN. That is what we want to find out, how we can do that.

Mr. HOLLYDAY. I think we have done it.

The CHAIRMAN. Thank you.

Senator Douglas. Mr. Chairman?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. I don't want to delay Mr. Hollyday's statement. If the chairman would prefer to have the witness go on, I will not ask this question. But there is a question that I would like to ask on the interest charges under title I, if that is agreeable to the chairman.

The CHAIRMAN. I see no reason why we should not get into these things as fully as every member of the committee cares to, as we go along. You proceed.

Senator DOUGLAS. Do I understand, Mr. Hollyday, that the interest charge is 5 percent on these loans?

Mr. HOLLYDAY. No, sir. It is 5-percent discount.

Senator DOUGLAS. It is 5 percent on the principal, but principal is paid off in small amounts averaging 30 months?

Mr. HOLLYDAY. At common interest, the individual pays, on a common-interest basis, about 9.6 percent.

Senator DOUGLAS. That is the point I wanted to establish; that though it is 5 percent, the 5 percent is reckoned on the principal, and that, with a declining obligation, this amounts to virtually double the nominal rate of interest. Is that not true?

Mr. HOLLYDAY. Yes, sir; that is true.

Senator DOUGLAS. Have you ever thought of having the interest rate fixed on the amount of the outstanding balance, so that the homeowner would know what the interest rate is that he is paying?

When builders come to him and tell him that the charge will only be 5 percent, he doesn't realize that it is 9.6 percent. Have you ever thought that the interest rate should be upon the outstanding balance owed, rather than on the principal?

For instance, in the last month, take your average loan of \$600, paid off in 30 monthly installments. The last month leaves only \$20 outstanding. The 5 percent is reckoned not upon the \$20, but upon the \$600 of the original loan; is that not true?

Mr. HOLLYDAY. Yes, sir.

Senator DOUGLAS. Isn't that a weakness in virtually all installment selling on durable consumers goods, where the amounts are large, that there is a concealed interest rate which the buyer and borrower doesn't know about?

Mr. HOLLYDAY. Well, Senator, that is true; but there is a big "but" that comes right along with that. The "but" is that if you put it on a simple-interest basis, then you have got to make examination charges and fees, and for the average loan, the buyer will come out on about the same basis.

Senator DOUGLAS. I am not concerned at the moment with what the rate of interest should be, and it may be that the rate of interest should be higher on these small loans, because of the cost of servicing.

Mr. HOLLYDAY. It has to be.

Senator DOUGLAS. But I think it is important that the borrower should know what interest rate he is paying. In this case, the borrower thinks he is paying 5 percent, but as you correctly say, he is really paying 9.6 percent, and he doesn't know that.

Wouldn't it contribute to a better situation all around if the interest rate were reckoned upon the outstanding obligation rather than upon the principal which at some times he has more than paid up. He is paying on a nonexistent debt, in other words?

Mr. HOLLYDAY. It would be certainly fairer to point out to anyone in consumer banking that when you are on a discount basis, you are paying, as you say, nearly double the quoted rate.

Senator DOUGLAS. As a matter of fact, you spoke of overselling, namely, getting a man to make repairs which he could not afford or charging him more for repairs than he actually received in value. Is not one of the factors which enables this overselling to take place—not the only factor, but one of the factors—the belief on the part of the borrower that he is only paying 5 percent, when, as a matter of fact, he is paying 9.6 percent? Doesn't this really lead to overselling and overbuying, as you say?

Mr. HOLLYDAY. I don't believe that the question of interest rate to the individual who is buying an article—frankly, the charges in that form of merchandising are pretty high because, I presume, of the cost of operation. I doubt that there would be much of a change or that a change in interest rate would make much of a change in buying.

The problem lies in the character of the dealer and in the telling of the individual to do some shopping with what—

Senator DOUGLAS. The purchaser is supposed to and does think about cost. On a \$600 loan at 5 percent interest on the principal, he will pay \$30 a year. If it takes him 2½ years to pay off the principal, that is \$75 in interest. If he thinks he is only paying 5 percent, but in reality he is paying almost 10 percent, that is an overcharge of around \$36 more than he thinks he is paying.

So that is 6 percent of the original cost of the repairs, or alleged original cost of the repairs. I want to say that this is common practice in installment selling. I certainly do not want to castigate either you or your predecessors for falling in with what is the prevailing practice in the industry. I have a weakness in installment selling and that the purchaser and borrower did not know the lending agencies really con-

I have felt that the public, at least, is owed an obligation to make the terms clear and understandable and then let the rate of interest be what it is. But don't let them pass off a high rate of interest as a low rate of interest.

Mr. HOLLYDAY. Thank you. Senator Capehart—

The CHAIRMAN. Will you yield one moment? Without objection, I would like to place into the record at this time the Executive order by the President setting forth the terms under which he turned over these 1,149 names under section 608.

(The Executive order referred to follows:)

EXECUTIVE ORDER

INSPECTION OF INCOME, EXCESS-PROFITS, DECLARED VALUE EXCESS-PROFITS, CAPITAL STOCK, ESTATE, AND GIFT TAX RETURNS BY THE SENATE COMMITTEE ON BANKING AND CURRENCY

By virtue of the authority vested in me by sections 55 (a), 508, 603, 729 (a), and 1204 of the Internal Revenue Code (53 Stat. 29, 111, 171; 54 Stat. 989, 1008; 55 Stat. 722; 26 U. S. C. 55 (a), 508, 603, 729 (a), and 1204), it is hereby ordered that any income, excess-profits, declared value excess-profits, capital stock, estate, or gift tax return for the years 1942 to 1953, inclusive, shall, during the 83d Congress, be open to inspection by the Senate Banking and Currency Committee, or any duly authorized subcommittee thereof, for the purpose of its investigation of loan projects under section 608 of Title VI of the National Housing Act, as added by the Act of May 26, 1942 (56 Stat. 303), as amended, and the amounts of the mortgages, the cost of construction, and the cost of land of such projects in accordance and upon compliance with the rules and regulations prescribed by the Secretary of the Treasury in Treasury Decision 6064, relating to the inspection of returns by certain committees of the Congress, approved by me February 11, 1954.

This Executive order shall be effective upon its filing for publication in the Federal Register.

DWIGHT D. EISENHOWER.

THE WHITE HOUSE, April 19, 1954.

Mr. HOLLYDAY. I would like to ask the privilege of being permitted to read my statement.

The CHAIRMAN. Yes; you may proceed. You are going to have plenty of time. We are going to give everybody plenty of time to be heard. Let me say this, that as I told you when we opened the hearings today, this hearing is really a continuation of our hearings on the proposed new housing bill in order that we may find out whether we should or should not, and if so how, improve the proposed bill to avoid any such difficulties as we have been reading about in the newspapers for the past week.

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. That is the purpose of these hearings. To that end, we ask the cooperation and help of everybody that has any knowledge on the subject, who has had any experience with it. In reporting out this new legislation, we want to avoid a recurrence of these things if we can.

We are not trying to be critical, but just to get the facts and to be helpful. You may proceed.

Mr. HOLLYDAY. Yes, sir. This was the time when I became Commissioner, Senator.

As an example, I pointed out that there was then a backlog of some 100,000 title I loans which FHA had not processed, and that approximately \$5 million in premiums on insurance of these loans remained

uncollected. I pointed out, also, that FHA had been obliged to forego virtually all mortgagee audits and most of the financial examinations of title I lenders during the fiscal year 1953.

It was my recommendation that this work, which is essential to reduce claims, to conserve FHA's funds and protect the public interest, should be brought into current status at the earliest possible moment.

I commented that the weakening of controls of insuring operations was a serious threat to the long-term success of the program—first independent officers appropriations, 1954. Hearings on H. R. 4663, page 406, April 25, 1953. I also pointed out that we had a backlog of cases of irregular or fraudulent transactions which we did not have sufficient investigating staff to handle.

Senator BRICKER. You didn't testify to that before this committee!

Mr. HOLLYDAY. No, sir: that was before the Appropriations Committee, asking for the money to do the job.

I might say, Mr. Chairman, that the Senate responded by providing an amount of additional administrative funds for FHA for fiscal 1954, over and above the amount which had tentatively been provided. With these additional funds, I am gratified to report, we wiped out the backlog of 400,000 unprocessed title I cases during my year as Commissioner, and title I loans are now on a current status in FHA.

The fact that there had been abuses of title I by unscrupulous promoters was known to me when I became Commissioner. I undertook to determine the extent of these abuses and the most effective means of dealing with them. They were small in proportion to the scope of the title I program. It seemed to me that the effective remedy was to prevent them at the source.

It was essentially a field problem, involving the borrower and the private lending institution whose loan FHA insured. In order to obtain the benefit of the views and recommendations of representative lending institutions as to corrective measures, I asked the vice presidents of seven banks which were active in making title I loans to come to Washington to study the problem and advise with me and my staff.

The CHAIRMAN. Will you furnish the committee with the names and addresses of those banks and the officers with whom you discussed this matter?

Mr. HOLLYDAY. Yes, sir. I will. (See p. 1359.)

Mr. HOLLYDAY. This committee first met in June 1953, approximately 2 months after I became the FHA Commissioner. The committee made an intensive study of the problem, and by September 1953 had completed its report and prepared specific recommendations as to new regulations. These recommendations were adopted and we proceeded to work up regulations to put them into effect.

On Oct 9, 1953, I issued an order amending the existing regulations relating to title I mortgage insurance improvement loans in accordance with the recommendations of the Committee of Seven, and my own views as published in the Federal Register, Vol. 18, No. 217. The amended regula-

I was satisfied that the amended regulations would go a long way toward preventing improper practices and the defrauding of homeowners in connection with title I loans. Others, aside from the Committee of Seven, took the same view. The November 1953 issue of *House and Home*, one of the leading publications in the housing field, carried an article on the revised regulations. It is typical of the general reaction to the steps taken, and I would like to refer to it briefly for the committee's information.

The article was entitled, "FHA Cracks Down on Title I Repair Tickets: Orders Lenders To Investigate, Certify Dealers." It said, emphasizing the seriousness of the problem:

FHA's orders added up to a serious and probably successful effort to overcome what has been called the Achilles' heel of its loan-insurance program. FHA relies heavily on banks' prudent lending policies to screen out bad title I loans. It neither investigates nor evaluates them itself before insuring. Such a task would cost too much, anyway. Last year, FHA insured some 2 million title I repair loans averaging \$500 each. But because title I pays an effective 9.6 percent interest and bears Federal insurance, many an institution was making too little investigation.

That is, Senator, as you have wisely pointed out.

The CHAIRMAN. You are talking about the widespread abuses here. But, you came up and asked, as did others, that we increase the limit from \$2,500 to \$3,000 in this new bill we are considering.

Mr. HOLLYDAY. Senator, it doesn't make any difference, if your average loan is \$500 and your mean loan is \$450, whether you increase from \$2,500 to \$25,000.

The CHAIRMAN. Then what was the idea of taking up our time suggesting that it be increased from \$2,500 to \$3,000?

Mr. HOLLYDAY. I didn't recommend it.

The CHAIRMAN. You know it was recommended?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. It was recommended by the President's Commission, too; was it not?

Mr. HOLLYDAY. Yes, sir.

By last spring, hot-shot and high-pressure salesmen were so active in the home-repair field that in one 3-month period, California's State license board laid charges of fraud and misrepresentation against 50 construction firms. In San Francisco, the Better Business Bureau went to the lengths of calling a press conference to expose and denounce sales pitches which were leading some homeowners to think they would get a \$1,000 mastic job free because their house had been used for advertising.

The article digested the order accurately and succinctly, and tells very clearly what was done:

FHA moved decisively this month to stamp out racketeering in title I home-repair loans (*House and Home*, October 1953, p. 168). Commissioner Guy Holaday issued orders that:

1) Lenders must henceforward obtain signed applications from contractors doing title I business with them. These must guarantee that "ethical and proper business practices will be followed," and "immediate attention given to all complaints involving materials, workmanship, or sales representations." Deliberate false statements are punishable by a \$5,000 fine or 2-year jail term.

2) For contractors with whom lenders have not done title I business in the last 12 months, lenders must certify to FHA that they have investigated and found them "reliable, financially responsible, and qualified" to do a good job.

3) Lenders must begin keeping records of their experience with each title I contractor—showing loan volume, losses, and complaints or irregularities.

(4) A 6-day waiting period to be imposed before a title I contractor can collect from a lender for a completed job. Purpose: The lender will meanwhile notify the homeowner of the transaction and await squawks, if any.

(5) FHA will insure no more title I loans where borrowers have been given or promised a cash payment, rebate, or commission on future sales. (These were some of the most frequent come-ons used by "dynamiter" salesmen of home repairs and improvements.)

Senator DOUGLAS. Mr. Chairman, might we ask the witness to give a definition of the colloquialism "dynamiter"?

Mr. HOLLYDAY. Well, there is a synonym, the "suede-shoe boy." They are pretty well dressed, Senator. They are very neat, and they are a modernized city slicker, bent on defrauding people. They will go from one town and one name into another town with another name and endeavor to sell people what we call a goldbrick in some form or another. They are usually smarter than the branch manager is.

The CHAIRMAN. Mr. Hollyday, how long has this been going on?

Mr. HOLLYDAY. I would say around about 1934.

The CHAIRMAN. When the losses started, you mean?

Mr. HOLLYDAY. Yes, sir.

Senator DOUGLAS. Well, Mr. Hollyday, these people must work in cooperation with some contractors or with some lending institutions, isn't that true? They don't operate in a void.

Mr. HOLLYDAY. They work for the contractors for a short time and then they move on, because the contractor is blacklisted and he is out of business.

The CHAIRMAN. I might say to Senator Douglas, we already have information and we will be able to show that banks were organized for the specific purpose of handling these loans and nothing else.

Senator LEHMAN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. I am a little confused at your reply. Earlier, when I questioned you, you stated in response to one of my queries that you saw no way of protecting the homeowner in the placing of his contract. That he was on his own in connection with placing a contract for repairs in the same manner he would be if he bought an automobile or a refrigerator or anything else. You also testified that there was no inspection on the part of the banks or on the part of the FHA.

In these directives which you issued in November, it seems to me you very definitely recognized that the homeowner has a right to expect to be protected, at least to the extent that if he enters into contractual relations with the lender or with a contractor, that he will be dealing with a reputable firm, one that will not mulct him. That is a form of protection which I understood from your earlier reply was not being furnished to the homeowner.

Mr. HOLLYDAY. May I say, Senator, your recent statement is correct and my impression that I gave you was an attempt to direct not to the protection of the home buyer, but with regard to the prices that he paid for an article. I think these are destined for the protection of the individual, to try to protect him before the horse is out of the barn.

These people think it will work. As to inspection of larger loans, I think all the lenders do. On the medium loan, which is around \$450, I am sure they don't. That is standard credit practice.

This is the end of of the quotation from this article from House and Home:

To make sure the cash bonus loophole was really plugged up, FHA will also require contractors to certify in completion certificates that no cash bonus, rebate or commission on future sales has been given or promised.

That is how a lot of these people were intrigued into this business by a "come on."

The CHAIRMAN. Mr. Hollyday, every one of these suggestions just make common horse sense to me. Why did it take from 1935 to 1953 to get them into effect?

Mr. HOLLYDAY. The operation, Senator, has worked reasonably well. This is a very sincere attempt to prevent the very small amount of title I defaulting that goes on. Even in the claims, you are only talking about 0.79 percent.

The CHAIRMAN. I am just a little bit fearful that there have been tens and tens of thousands of them that we have known nothing about. I am sorry to say it, but I think it is true.

Mr. HOLLYDAY. Senator, when somebody gets defrauded, and they are doing business with a banking institution that is insured by FHA, you know about it pretty quick.

The CHAIRMAN. I hope you are right, but I am a little fearful.

Mr. HOLLYDAY (reading):

Contractors also must certify that all bills for labor and materials have or will be paid, and that they will buy back the title I loan if any of their representations prove wrong.

That is the end of the quotation of the article.

Senator BRICKER. Wouldn't it have been possible, Mr. Hollyday, to have required a bond upon the part of each contractor to carry out the provisions of this regulation?

Mr. HOLLYDAY. Senator, that is a matter between the bank and the various dealers they do business with. I don't know enough about the business.

Senator BRICKER. But you are guaranteeing the loan to the bank. It would be a perfectly reasonable requirement that the bank require such a bond before lending the money, would it not?

Mr. HOLLYDAY. Senator, I don't know, but I suspect that many of the banks do just exactly what you are saying. I don't know enough about the business to answer your question.

Senator BRICKER. There would be no reason why you couldn't require it, would there?

Mr. HOLLYDAY. I don't know enough about consumer banking to intelligently answer your question.

Senator BRICKER. Thank you very much.

The CHAIRMAN. The chief trouble was the banks that were organized for this specific purpose and a small percentage of unscrupulous bankers and dealers and sellers caused all this trouble. As Senator Maybank just said, there had to be at least some collusion some place.

Senator MAYBANK. We have heard of a case where a man was loaned \$1,000 to pay a gambling debt.

Mr. HOLLYDAY. Senator, when you are dealing just in our line, there is a tremendous amount of business that goes on in routine consumer banking that is not insured. We, alone, do \$1 billion worth of

business. I suspect that there is probably at least \$2 billion worth of business in consumer banking that we have nothing to do with.

The CHAIRMAN. Of course, you are going to have some crooks in any organization.

Mr. HOLLYDAY. Certainly, sir.

The CHAIRMAN. They are going to make some mistakes and it is hard to be perfect.

Mr. HOLLYDAY. And it is pretty hard, Senator, to prevent a crook who is willing to take his chances and run out of town and that is what we are trying to do.

The CHAIRMAN. We are fearful that this has been too widespread, and we want to find ways and means of stopping it. We are primarily interested in protecting the homeowner, the man who borrows the money.

Mr. HOLLYDAY. That is exactly what I have right here.

Senator BRICKER. It is my opinion you could have tied that up with the requirement of a bond on the part of a bank, and then you would have gone further than you have gone here in protecting the borrower.

Mr. HOLLYDAY. Yes, sir; I can readily see that, Senator.

Subsequently, the entire matter of title I loans and abuses was considered by the President's Advisory Committee on Government Housing Policies and Programs. The Advisory Committee's Subcommittee on FHA and VA Housing Programs and Operations requested FHA to furnish information concerning the steps taken to eliminate the misuse of title I. By memorandum, we advised the committee as follows:

This, gentlemen, is a report to the President's Advisory Committee by the FHA.

STEPS BEING TAKEN TO ELIMINATE ABUSE IN THE FHA TITLE I REPAIR AND IMPROVEMENT PROGRAM

The insurance of repair and improvement loans under the provisions of title I of the National Housing Act is a mass-volume operation. Last year, approximately 2 million repair loans, averaging \$500 each, were reported to the Federal Housing Administration for insurance by approximately 8,000 active lending institutions and their branches.

In administering this operation, the FHA vigorously opposes the irregular practices of a relatively few unscrupulous dealers and salesmen who have taken advantage of the basic "good faith" concept on which the program is founded.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Mr. Hollyday, before you get too far into this statement, could you put a date on it?

Mr. HOLLYDAY. Yes, sir. The November 1, and these regulations effect as of December 1, 1953.

Senator BENNETT. Mr. Hollyday, we are now like the President's Committee on the

Mr. HOLLYDAY. Yes, sir.

Senator BENNETT.

It is not ir

as we announced as of November 1, 1953, and these regulations went into effect as of December 1, 1953.

Mr. HOLLYDAY. I am sorry, sir. I would say very close to the latter part—somewhere in the latter part of November or the early part of December.

Senator BENNETT. Of 1953?

Mr. HOLLYDAY. Yes, sir.

Senator BENNETT. Thank you.

Mr. HOLLYDAY. With the objective of eliminating any misuse or misrepresentation, and at the same time maintaining a practical lending operation, the Commissioner has amended the title I regulations to—

1. Require that approval of the dealer by the lending institution be evidenced by an application signed and dated by the dealer on a form furnished by the Administration. The lending institution must investigate all dealers from whom it has not purchased notes during the last 12 months and must certify that it has found the dealer to be reliable, financially responsible, and qualified to perform satisfactorily the work to be financed and to extend proper service to the customer.

The CHAIRMAN. Will you yield there?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. The dealer, of course, sells these notes without recourse, does he not, to the bank? The dealer gets completely off the obligation?

Mr. HOLLYDAY. I think that depends, Senator, on the bank.

The CHAIRMAN. But in most cases, he is relieved of any further obligation?

Mr. HOLLYDAY. I do not know the answer to that question.

The CHAIRMAN. Will you find out and let us know? I think you will find out that he is 100 percent relieved in 99 percent of the cases. It seems to me that the Government ought to operate its business just like private people operate their businesses, which means that if a dealer sells the homeowner \$1,000 worth of siding for the house on 30 months, that the dealer ought to stay on that note until it is paid.

He has to do it if he goes to the bank himself to borrow the money or borrows it from a finance company or sells his receivables. He must stay on it until it is paid. The dealer, of course, is the man who sells the paint, the siding, or whatever it is. He is the dealer. He sells it in X case for \$2,000 on 30 months. Why shouldn't he remain on the paper until it is paid? He would remain on the paper if it wasn't sold under an FHA guaranty.

Mr. HOLLYDAY. Senator, here is what he has to do.

Contractors must certify that all bills for labor and material have or will be paid—

The CHAIRMAN. This is your new regulation?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. This is what you recommended?

Mr. HOLLYDAY. This is what is now in force. May I finish?

The CHAIRMAN. Wait a minute. Let's get back to my question. Why shouldn't the dealer be required to remain on that paper until it is paid?

Mr. HOLLYDAY. I don't know that there is any difference between "required to remain on the paper," and do what he has to do, and that they will buy back the title I loan if any of their representations prove wrong.

The CHAIRMAN. That is rather hard to prove, is it not? Why do you want to go to all that trouble? Why not just have him guarantee the loan?

Mr. HOLLYDAY. That is up to the bank. That is their business and they do that.

The CHAIRMAN. I wish you would give a lot of thought to this and advise us on it a little later, because it is one of the things we are thinking of possibly doing to strengthen this whole bill.

Mr. HOLLYDAY. I think it is right here.

Senator BRICKER. If there were a bond required, you would have a built-in inspection system, wouldn't you? Then it wouldn't matter whether he was off the note or on the note.

Mr. HOLLYDAY. I don't know the reason—it would seem to me a bond would be a good thing, Senator. It looks good to me. I don't know.

The CHAIRMAN. I think it might well be good, but I don't think it is quite as good as having him simply endorse the note. That is what he has to do if he is doing business privately without the Government's support.

Mr. HOLLYDAY. I don't know how they guarantee. It may be through bank endorsement or not. But if there is misrepresentation, the contractor has to refund.

The CHAIRMAN. If I sell you \$2,000 worth of siding, and you give me a note for 30 months, and I want to go to the bank and discount it because I need the money, I endorse the note and stand back of it, do I not? Why shouldn't that same principle apply, even though the Government is guaranteeing at least up to 10 percent of that?

Mr. HOLLYDAY. I think under this regulation, Senator, it does.

The CHAIRMAN. I hope it does.

Mr. HOLLYDAY. 2. Require that the lending institution maintain a loan record of its experience with its approved dealers that will reflect the volume of loans purchased, losses sustained, and any complaints or irregularities. Such record shall be considered in determining the future financial relationship with the dealer and shall be available for inspection by the FHA.

3. Require the lending institution to deliver a notice to the borrower of the approval of his credit application at least 6 calendar days prior to disbursing the note proceeds to the dealer. The purpose of this notice is to inform the homeowner of the basic terms of the proposed credit and to give him an opportunity to contact the lending institution if he has any question regarding the transaction.

4. Make a loan ineligible for insurance if the lending institution has knowledge that as an inducement for the consummation of the transaction the borrower has given or promised a cash payment or rebate or it has been represented to the borrower that he will receive a cash bonus or commission on future sales.

5. Require the dealer to certify in his completion certificate that the borrower has not been given a cash bonus or promised a cash payment or rebate, nor has it been represented to the borrower that he will receive a cash bonus or commission on future sales as an inducement for the consummation of the transaction. The dealer must also certify that all bills for labor and materials have been or will be paid, and that if any of the representations appearing on the completion certificate prove incorrect, the dealer will promptly repurchase the note.

In addition to the above amendments to the regulations, the following administrative steps have been or are being taken:

(a) The Administration's investigating staff, as well as supervising staff, has been strengthened so as to more promptly investigate and correct reported abuses or irregularities of dealers and salesmen as well as lax lending practices on the part of lending institutions.

The CHAIRMAN. You say the Administration's investigating staff, as well as supervisory staff, has been strengthened so as to more promptly investigate and correct reported abuses or irregularities of dealers and salesmen, as well as lax lending practices on the part of lending institutions. You have just testified earlier that you only have three men.

Mr. HOLLYDAY. I have only three men to do the investigation of irregularities. They had three when I came here to do the investigating of the entire organization—

The CHAIRMAN. But you say here that it has been strengthened. How was it strengthened? More men?

Mr. HOLLYDAY. I think it was—we were given several additional men in the regular work and we were given 3 additional investigators, 1 of whom was an experienced man, so we started off with 3 to cover the entire United States, and I was given 3 more, 1 of whom was an experienced man.

The CHAIRMAN. Does that mean that the others were not experienced?

Mr. HOLLYDAY. The other two were trainees, and it takes about a year to train a man to do a very difficult gum-shoe job.

The CHAIRMAN. These things sound good to me. Why shouldn't they be made a part of the law? Why didn't you recommend to us when we were considering this new bill that they be made a part of the law?

Mr. HOLLYDAY. One of the biggest problems I had was too much law and not enough authority to administer.

The CHAIRMAN. Say that again. One of your biggest problems was what?

Mr. HOLLYDAY. One of the biggest problems that confronted the Federal Housing Administration was the numerous amendments, 47 of them, that tied up the operation of the FHA into one of the most complicated arrangements that I ever ran across.

The CHAIRMAN. In other words, what you said was that you had too much law and not enough what?

Mr. HOLLYDAY. Opportunity to administer the program.

The CHAIRMAN. I think before we get through with this investigation you will find that you didn't have enough law, possibly. Either that or there has been, over the past many years, a lot of very, very bad administration. When you take a look at those 1,149 reports that the President delivered to us here this morning, I think your face is going to be a little red. Not only yours, but others who had anything to do with it.

Mr. HOLLYDAY. Senator, I am just a simple businessman, but I don't expect my face to get red over anything I did when I was with FHA.

The CHAIRMAN. You had nothing to do with those, because they all happened before you became Commissioner. I don't like the statement you made that you had too much law and not enough authority.

Mr. HOLLYDAY. Will you permit me to explain that?

The CHAIRMAN. Yes, please.

Mr. HOLLYDAY. I referred to the regulations and constructions that you have had in title II, the operation of the big housing program, which, under the revised law, you have had nine different ways in which somebody could get insurance. Now, all those nine are simply filed down into one, and it will be a great help to the operation of the Federal Housing Administration to have the simplification, which is one of the primary objections of the housing law that is now before you gentlemen. That is what I had in mind.

Senator BRICKER. Here is what we had in mind. If these are good, there is every reason why they should be written into the law, because if not, some other administrator who may come after you might repeal them immediately and might go back to the old standards again. If they are written into the statute, then they are a firm and fixed requirement. There might be further a question of whether or not a violation of one of those regulations would carry the penalties provided in the law. I don't know whether it would or not. I have not examined the law with that thought in mind.

But unless they are specifically authorized and penalties designated to attach to a violation of a regulation, you might have some difficulty in enforcing them; criminally, I mean.

Mr. HOLLYDAY. Senator, I, of course, yield to your knowledge of the operation of law.

Senator BRICKER. That is a suggestion of how there ought to be a definite delineation in the law of the requirements in regard to these title I loans.

Mr. HOLLYDAY. The question of administration, if this can be done by regulation—my point was—and I could be wrong—that you can be more effective in administration through regulation than you can by spelling out in the law.

Senator BRICKER. That is, within detailed field, of course. It seems to me that every suggestion you have made here—these regulations are excellent. I think they go a long way toward correcting the abuses that have been called to our attention and might prohibit them, I don't know. I think with a suggestion of a bond, possibly, written into the law, that would correct all of the difficulties that we have and you would have a built-in enforcement, right in the statutes. I may be wrong about that. I want to think it through. I want to compliment you upon the regulations you have suggested here. I think they are excellent.

Mr. HOLLYDAY. Thank you, sir.

(b) Efforts are being intensified to assure that lending institutions weed out irresponsible dealers and salesmen. Failure to do so will result in cancellation of insurance contract.

(c) The directors of all field offices, personally and through designated staff assistants, are being directed to promptly correct any irregular practices that may develop in their area.

(d) The cooperation of better business bureaus, various civic groups, financial organizations will be enlisted in correcting local

its Advisory Committee's report was dated December
fic findings and recommendations. It re-

ewed the new FHA regulations which had been promulgated to tighten up lending procedures under title I, and said with respect to them, on page 26:

Now, gentlemen, this is the Committee that the President of the United States appointed to advise him with respect to housing, and this is what they said:

The FHA has recently issued new regulations which provide for screening dealers and for tightening the procedures in those cases where the homeowner is not dealing directly with the financial institution. There is attached as Exhibit 3 a description of the scope of these regulations. It is the judgment of our subcommittee that these new regulations will correct the abuses and that no further requirements should be imposed in this area at this time.

Senator DOUGLAS. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Who was chairman of that committee?

Mr. HOLLYDAY. Mr. Albert Cole.

Senator DOUGLAS. So he declared in December that no further requirements should be imposed in the area of title I as of December?

Mr. HOLLYDAY. I think to keep the record straight, Senator, I would say this is a report of the subcommittee which was adopted by the whole committee of which he is chairman.

Senator DOUGLAS. So that presumably he gave his approval to what you have been doing, and stated that no further requirements should be imposed?

Mr. HOLLYDAY. I think that is more than a presumption.

Senator DOUGLAS. I was trying to word this delicately. Did Mr. Cole ever speak to you about the fact that you should resign?

Mr. HOLLYDAY. Nobody spoke to me or intimated that I was to resign.

Senator DOUGLAS. This is a painful subject, and I hope you will forgive me.

Mr. HOLLYDAY. I wish you would, please, speak.

Senator DOUGLAS. Who asked you to resign?

Mr. HOLLYDAY. I was in the—Gov. Sherman Adams did.

Senator DOUGLAS. That is, the request came from the White House?

Mr. HOLLYDAY. Yes, sir.

Senator DOUGLAS. Did Mr. Cole ever ask you to resign?

Mr. HOLLYDAY. Mr. Cole never asked me or never intimated such a thing.

Senator DOUGLAS. Did he ever say that you had been negligent in your work? Did he ever tell you that you had been negligent?

Mr. HOLLYDAY. Tell me that I had been negligent?

Senator DOUGLAS. Yes.

Mr. HOLLYDAY. No, sir.

Senator DOUGLAS. It is my understanding that on the radio program Meet the Press yesterday afternoon—and I did not hear that program myself—it has been reported to me by reliable authority that Mr. Cole stated that his letter to you of January praised only your proach to investigate title I. I think that statement is correct. Do you want to comment on it?

Mr. HOLLYDAY. I think so, Senator. His letter to me was a personal letter, congratulating me on what both of us have been greatly concerned about. It was a private letter. I did not release it. I am sorry it got into the press.

Senator DOUGLAS. Mr. Hollyday, did Governor Adams ever call you from the White House and ask you about title I?

Mr. HOLLYDAY. No, sir. My visits to Governor Adams were on my initiative, and title I was never discussed with Governor Adams by me.

Senator DOUGLAS. Were you ever given a chance to reply to the charges which must have been lodged with the White House against you by someone?

Mr. HOLLYDAY. No, sir.

Senator DOUGLAS. You never knew the precise nature of the charges which were made against you?

Mr. HOLLYDAY. That is correct, sir.

Senator DOUGLAS. You were virtually fired without a chance to state your case?

Mr. HOLLYDAY. I think you could leave out the "virtually."

Senator DOUGLAS. I want to commend you for your sense of restraint, and I would say almost excessively gentlemanly behavior under great provocation.

The CHAIRMAN. Yes, I think you have made a splendid witness this morning, and I certainly appreciate it. I hope that we do not this week get into the investigation, but rather stick with what we ought to do with this proposed legislation, rather than the investigation of this whole business, which we will get into a little later. I am hopeful that we can stay with that, because that is what we promised the people and that is what we have promised the committee and what we have promised ourselves, that we will try to stay away from the investigation angle at the moment. That will come later, as to what is what, and when and where and how. We have no information on the subject at all, on the specific subject that Senator Douglas was questioning you about, except what we have read in the papers and other information that has been given to us by different departments. Suppose you proceed.

Mr. HOLLYDAY. Thank you, sir.

As of 4 months ago, Mr. Chairman, the specific measures which I had taken as FHA Commissioner had the approval of the trade and of the President's Advisory Committee, and were regarded as sufficient to correct the abuses. It was the judgment of the President's Advisory Committee that no further requirements should be imposed.

The CHAIRMAN. May I ask you this question: Is it possible that while these things were excellent, you did not put them into force?

Mr. HOLLYDAY. They went into force, with notice to every director as of December 1.

The CHAIRMAN. Have you a copy of the directives?

Mr. HOLLYDAY. Senator, I haven't been to my office since midnight of the 12th of this month. What I am doing here is without—

The CHAIRMAN. But you did notify all the field offices?

Mr. HOLLYDAY. I assure you I did.

The CHAIRMAN. Of these suggestions that you made? That was last December, was it?

Mr. HOLLYDAY. Yes, sir, that was on November 1. Senator, they were suggestions; they were requirements.

They were sent out to all the field offices?

They were.

Are they a part of your operating procedure?

Mr. HOLLYDAY. Yes, sir.

(The material referred to will be found in the appendix, p. 1815.)

Senator BUSH. Mr. Chairman, would you care to state for the convenience of the committee whether you plan to run this hearing this afternoon?

The CHAIRMAN. Yes. I think we can finish within the next 3 or 4 minutes with Mr. Hollyday, unless the Senators have other questions. When it was the thought of the chairman that we would recess until 3 o'clock, at which time our first witness will be Mr. Powell.

Mr. HOLLYDAY. I should like to add a word about our handling of complaints concerning specific abuses. These are, in the first instance, investigated in the field office. If the firm which did the work is found to be irresponsible, the case is forwarded to FHA's Legal Division to determine if criminal action is involved warranting referral to the Department of Justice. As I have said before, the investigation staff of FHA consisted of only three persons when I took office.

About the time the amended regulations became effective—and I do not remember the exact time, but the files will show—I addressed a letter to the director of every district insuring office. I informed them that we regarded the problem as exceedingly serious, and directed that they get in touch with the better business bureaus in their respective areas and obtain their full cooperation to prevent such abuses. The response to this letter was very good, and some of the better business bureaus wrote me expressing approval and appreciation of this action.

The other principal point which, I understand, is of interest to the committee has to do with section 608 relating to FHA insurance of mortgage loans on multiple-housing units. As the committee is aware, section 608 expired in March 1950, 3 years before the beginning of my duties as FHA Commissioner in 1953. I was, therefore, not involved in its administration.

The CHAIRMAN. Will you yield just a moment there?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. Mr. Powell was in charge of section 608 during its entire life and is still with the Commissioner's office. He will testify about that this afternoon.

Mr. HOLLYDAY. That I do not know, that he was still with the office.

The CHAIRMAN. Maybe I am wrong.

Mr. HOLLYDAY. I had asked for his resignation, and it had been turned in.

The CHAIRMAN. Maybe I am wrong. I thought he resigned and they refused to accept his resignation.

Mr. HOLLYDAY. Senator, that was after I left. I just wanted to keep the record straight. I don't know.

The CHAIRMAN. Then, I shall take the responsibility for the statement.

Mr. HOLLYDAY. All right.

Mr. Chairman, I trust that my statement has been informative and of value to the committee. The position of FHA Commissioner is the only public office I have ever held. I am grateful for the rewarding experience and fine friendships which it brought to me, and most of all for the opportunity to be of some service to my Govern-

ment. It is my earnest hope that this committee's hearings and study will result in measures to strengthen FHA and make its usefulness even greater in the interest of our national housing policy.

I would like to add one rather important item, if I may, to what I have prepared here. Early in July of 1953 there was brought to my attention what appeared to be a very serious breach on the part of one of my staff. I investigated the situation and I found out that there was very good grounds for believing that the allegation was correct. I called in Mr. Howard Murphy, the Associate General Counsel, and the chief investigator. The chief investigator, after having mapped out a program, went to one of the other cities and endeavored to get the story. He was unable to get proof of this alleged \$10,000 transaction between one of my staff and a builder. We worked on the matter further. He went to another city, working along the same lines. We were unable to reach a conclusion of guilt, but the facts were so serious, in my opinion, that on December 18, in company with the associate counsel, Mr. Hillock, our chief investigator, we placed our file in the hands of a Government agency, from which I have not yet heard but which I have confidence is pursuing that case to its logical conclusion.

Senator MAYBANK. What Government agency? You said you placed the file in the hands, Mr. Hollyday, of a Government agency. I just wanted it for the record.

Mr. HOLLYDAY. I went to the Department of Justice.

Senator MAYBANK. Thank you.

The CHAIRMAN. Are there any further questions?

Senator FREAR. May I ask a question, Mr. Chairman?

The CHAIRMAN. Senator Frear.

Senator FREAR. Mr. Hollyday, at the beginning of your testimony I asked that you place into the record, if you would, some of your background previous to your coming with the Federal Housing Administration.

Mr. HOLLYDAY. Yes, sir. I shall do so, Senator Frear. (See p. 1369.)

Senator FREAR. Thank you very much.

Just one final question, Mr. Chairman. I believe you stated in your testimony that you had 75 field directors.

Mr. HOLLYDAY. Senator, there are about 132 offices scattered throughout the country, Alaska, Hawaii, and Puerto Rico, but only 75 of those offices are major offices. They are the insuring offices; yes, sir.

Senator FREAR. Of the directors in those 75 major offices, there have been 45 changes since your time in office?

Mr. HOLLYDAY. Yes, sir; that is correct.

Senator FREAR. Thank you.

Senator DOUGLAS. Mr. Chairman?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Before we break up, may I make a statement?

The CHAIRMAN.

[] that witnesses before congressional
her rough handling. I want to con-
with which he has conducted
responsibility and fair-
I say that while there

have been undoubtedly abuses under title I, and while later evidences may develop, I think that Mr. Hollyday has been an extremely fine witness this morning. I think we have all been impressed with his gentlemanly conduct and the way he has handled himself. His attitude in this matter made me feel that he had read the Book of Job, because, as he will remember, there is a passage from Job which says, "Even though he slay me, yet will I trust him."

Mr. HOLLYDAY. Senator, may I thank the chairman? I want to say that several times I have been before this committee. There has never been a time when you gentlemen have not treated me with the utmost consideration, and I want to tell you I appreciate it.

The CHAIRMAN. We appreciate your testimony and I appreciate what Senator Douglas had to say. I assure you and everyone else that as long as I am chairman of the committee, everyone will get a square deal.

But we do have a responsibility, of course, for passing good laws. We do have a responsibility for seeing that the housing laws are properly administered, and we will get into this whole business as earnestly and sincerely and as constructively as we know how.

We would appreciate it very much if you would stand by, because we may want you to come back later as a witness. We will have Mr. Powell this afternoon. He worked for you, and it might be well for you to be here this afternoon. We might wish to ask you some more questions.

Mr. HOLLYDAY. Yes, sir, I will be here.

The CHAIRMAN. We will now stand in recess until 2 o'clock.

(Whereupon, at 12:15 p. m., the committee recessed, to reconvene at 2 p. m., the same day.)

AFTERNOON SESSION

(The committee reconvened at 2 p. m., Senator Homer E. Capehart, the chairman, presiding.)

The CHAIRMAN. The committee will please come to order.

Our first witness this afternoon will be Mr. Clyde L. Powell, Assistant Commissioner of the FHA in charge of rental housing. That is section 608. Mr. Powell, will you come forward, please.

Mr. Powell, do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF CLYDE L. POWELL, ASSISTANT COMMISSIONER,
MULTI-FAMILY HOUSING, FEDERAL HOUSING ADMINISTRATION,
ACCOMPANIED BY DANIEL B. MAHER, COUNSEL**

Mr. POWELL. I do.

The CHAIRMAN. Mr. Powell, do you care to make a statement?

Mr. POWELL. No, sir.

The CHAIRMAN. You may be seated.

Mr. MAHER. Mr. Chairman, my name is Daniel B. Maher. I am a member of the bar of the District of Columbia. May I ask whether the witness may be extended the privilege of being accompanied by counsel?

The CHAIRMAN. He may.

Mr. MAHER. May the witness be permitted to consult his counsel necessary?

The CHAIRMAN. He may.

Mr. MAHER. Is that, Mr. Chairman, the extent of the privilege which will be accorded?

The CHAIRMAN. Not only may the witness consult with his counsel but the counsel, if he cares to, may ask questions.

Mr. MAHER. Very well.

The CHAIRMAN. The counsel may advise the witness as to his right and anything he cares to. We are only interested in one thing, that is the facts. We are primarily at the moment interested only how we can amend the proposed housing bill that is before us so if possible, the so-called, alleged irregularities that seem to have occurred in the administration of the Housing Act over the past many years.

Mr. MAHER. Very well. Thank you.

The CHAIRMAN. That is our purpose at the moment. We hope that Mr. Powell will be helpful to us to that end.

Since you do not have a prepared statement, Mr. Powell, I have a series of questions here that I would like to ask you. They have to do purely with the administration in the past of section 608.

No. 1: How long have you been with the FHA?

Mr. POWELL. Mr. Chairman, I respectfully refuse to answer. My refusal is based upon my constitutional protection against being compelled to be a witness against myself.

The CHAIRMAN. The witness does not have to answer unless he chooses to. We certainly are not going to force you to do so. I will say that that we were hopeful that you would be able to assist us in arriving at some definite conclusions, as to what should or should not be done with this present act that is before us.

If I understand correctly, you have been with the FHA for many years. You were the chief administrative officer of section 608. I felt that you were the one man who ought to know the strengths and weaknesses of the law itself, and the one man who ought to know and have the facts as to whether it has or has not been an administrative good bill and one that you could live with.

I understand your answer is that you will not answer any questions.

Mr. MAHER. May I state, Mr. Chairman, that the answer previously given by the witness will be the answer given to any question propounded by the committee.

The CHAIRMAN. Regardless of how innocent or simple?

Mr. MAHER. Regardless of whatever nature.

The CHAIRMAN. I see. It is entirely up to the witness. I presume we could make him answer if we wanted to, but we will not because we are not here to persecute. We are not going to embarrass the witness in any way. We did not break this investigation. It was ordered by the President of the United States, and we are only trying to do what we believe is our responsibility and our duty to carry into this whole thing.

Either if
wishes to
comprehend
We want

tely, whichever viewpoint
has before it a view
expressed by the House
and the Senate in writing up the bill

ady to report it to the floor. This matter broke. It was insti-
and started by the President of the United States. We felt—
at is the view of every member of the committee without excep-
that we ought to find out whether or not the proposed bill should
ended. We were sincerely anxious that Mr. Powell might be of
ance to us. That was the only thought we had in mind for these
igs. They are preliminary hearings. They are in reality an
sion of our hearings on this new housing bill.

ir client refuses to testify, and we certainly are not going to em-
ss him by in any way insisting that he testify.

ator BRICKER. Mr. Chairman, may I ask what was the basis of
fusal?

CHAIRMAN. Senator Bricker just came in. Will you answer
Mr. Attorney?

MAHER. The answer I shall give, which was given by the wit-
was that he respectfully refused to answer.

refusal is based upon my constitutional protection against being com-
to be a witness against myself.

ator BRICKER. That is the fifth amendment?

MAHER. Yes, sir.

CHAIRMAN. We thank you very much for answering. We will
dismiss you.

MAHER. Mr. Chairman, I express my appreciation to the com-
for the privileges accorded me.

CHAIRMAN. Yes, sir. I think you are making a mistake, but
your problem, not ours.

MAHER. That may be.

CHAIRMAN. We will now hear Mr. Frentz. Is Mr. Hollyday
it?

may be seated, Mr. Frentz, after you are sworn in. Do you
only swear to tell the truth, the whole truth, and nothing but
uth, so help you God?

MONY OF ARTHUR J. FRENTZ, ASSISTANT COMMISSIONER, TITLE I, FEDERAL HOUSING ADMINISTRATION

FRENTZ. I do.

CHAIRMAN. You may be seated.

st let me ask you a couple of questions and maybe you can be
ie assistance to us this afternoon.

v long have you been with the FHA, Mr. Frentz?

FRENTZ. I came into the FHA on August 30, 1934.

CHAIRMAN. Are you the chief administrative officer of title I?

FRENTZ. I am, sir.

CHAIRMAN. You are under the FHA Commissioner himself,
ly in command?

FRENTZ. I am Assistant Commissioner in charge of the Title I
on.

CHAIRMAN. Have you been in charge of title I since 1934?

FRENTZ. No, sir, I have not.

CHAIRMAN. How long have you been in charge?

FRENTZ. I have been Assistant Commissioner in charge of Title
s 1947. I have been in title I, however, since it started in 1934,
heart and soul are in title I.

The CHAIRMAN. In other words, you have been with it since it came along?

Mr. FRENTZ. That is right.

The CHAIRMAN. And you are still there?

Mr. FRENTZ. Yes, sir.

The CHAIRMAN. Would you like to tell us in your own way what you know about these alleged irregularities, and your idea of how the law might be amended, or tell us anything you care to?

Mr. FRENTZ. Well, fine. I believe it may be best for the committee if I may take a moment to go back and review a bit of the history of title I.

As was brought out this morning, title I was passed by the Congress in 1934 as a pump-priming device. At that time our economy was down. Our banks, let us say, lacked the confidence to make loans.

The CHAIRMAN. Mr. Hollyday, will you come up, please? You might be helpful to us. Maybe you will be more comfortable up here anyway. Thank you very much, Mr. Hollyday.

Mr. FRENTZ. For the first 2 or 3 years, in fact from 1934 to 1937, title I was in operation to get the wheels of industry turning and put men back to work. Essentially that was its purpose, and that was its objective, and the record will determine as to whether or not that was fulfilled.

In 1937 the administrator of title I—we then called the Commissioner the Administrator—recommended to the Congress that title I be discontinued, and it was discontinued.

The CHAIRMAN. That was what year?

Mr. FRENTZ. 1937. At that time, and subsequent thereto, as your records will show, a slight depression took place. I use the word "depression" advisedly.

Then in 1938 the Congress called us back and, in effect, reinstated title I again. The Commissioner in effect said at that time, "Well, if you are going to have title I, then we should make it self-supporting." At that time the philosophy of title I changed from a pump-priming device to, let us say, a sound—

The CHAIRMAN. That was in what year?

Mr. FRENTZ. 1938. In 1939 the Commissioner recommended that the insurance premium be charged to the banks for this insurance. Beginning with 1939, title I has charged a premium to the banker, and our philosophy has changed so that we have endeavored to operate title I as a pure business proposition. I say that advisedly, of course, because we recognize that when you have catastrophies, you may have to go in and do a job that otherwise you perhaps would not want to do in normal circumstances. But otherwise we have tried to operate title I practically and in a businesslike fashion, recognizing first that it was the intent of Congress to see that the benefits of the National Housing Act were given to all segments of the population, all people, and, second, putting it on a sound, businesslike basis, as far as making it ent— f-supporting.

a self-supporting. We have created since 1939
i million. We have something like approxi-
mums. So our losses have been
to the taxpayers is concerned, is
I entirely on the premiums that

are collected from the lenders. We have paid all our claims and our expenses. That brings us up to date, very briefly, as to our sound and our current financial condition.

We have had this problem of dealer controls, dealer operations. We had those problems in the past few years. While they may recur infrequently in the early days, they started in about Title I at that time was coming out of the war.

We refer to a paper.

CHAIRMAN. You may refer to anything you care to.

FRENTZ. I like to use the correct figures, as long as I am using

46, coming right out of the war, our volume was approximately \$1 billion a year. I am going to cite these figures to you to illustrate the tremendous drive and impetus that came into title I with the start of the war, and then with the advent of the Korean war. From \$1 billion we then jumped to \$500 million and \$600 million. In 1950, \$700 million in insurance. In 1951, \$700 million. In 1952, \$848 million. And in 1953, \$1,300,000,000.

gentlemen, those figures illustrate, I believe, our problems. These are basic problems.

CHAIRMAN. What rate are you operating at today?

FRENTZ. We are operating, today, at about a billion dollars a

CHAIRMAN. At the rate of about a billion a year?

FRENTZ. Yes, approximately.

for MAYBANK. Mr. Chairman, might I ask a question?

CHAIRMAN. Senator Maybank.

for MAYBANK. Since the news broke, and it was released, I want you to tell this while Mr. Hollyday is here. Have you done anything to try to warn the lenders to be more careful and to doublecheck and more carefully? I wonder if you have done anything.

FRENTZ. I have tried to take you back——

for MAYBANK. Not recently?

FRENTZ. In the past few days.

for MAYBANK. Have you tried to tighten up?

FRENTZ. Not in the last few weeks.

for MAYBANK. I heard Mr. Hollyday's testimony this morning and I wondered if you had done anything recently.

FRENTZ. Not recently.

for MAYBANK. Do you intend to do something?

FRENTZ. Yes, we do.

for MAYBANK. I am glad to know that. When do you intend to do it?

FRENTZ. As soon as you give me a chance. Right now.

for MAYBANK. I mean as to your order to your agencies. Are you going to do it this week or next week?

FRENTZ. Let's approach the problem sanely.

for MAYBANK. I would never approach any problem except

FRENTZ. That is right. Then as soon as possible let's inject our program the devices——

for MAYBANK. Get this straight. As the chairman has said, the greatest interest in this thing is to help the consumers of this country,

and it is to get some decent bill passed here for the sake of honest people, and I resent any thoughts that you have that I am approaching something not sanely.

Mr. FRENTZ. I didn't mean that, sir. I feel this way—

Senator MAYBANK. If we don't do something soon, in my judgment we won't have any housing bill.

The CHAIRMAN. You may proceed, Mr. Frentz. Were you finished, Senator Maybank?

Mr. FRENTZ. I would like to say this, in keeping with this dealer problem: The first signs of the dealer problem are traceable back to the spurts in the sudden volume of business. Our first signs, let us say, of the so-called overcharging that is one of our problems today, occurred back in the inflationary days of 1946-48. That gave us a great deal of concern.

I would like to make one thing clear as far as I am concerned, and as far as our staff is concerned. In the administration of title I, we have taken this general position, that we do not need to look out for the dealer. He will take care of himself.

The CHAIRMAN. We are aware of that.

Mr. FRENTZ. We do not need to look out for the banker. He takes care of himself. So, very frankly, I want to say to you gentlemen honestly that our one aim and one purpose has been to take the side of the homeowner in all these cases.

Starting back in 1946, because of the inflationary spiral that was occurring in that period, one of the things we did to see what we could do to control the overcharging was to institute a new procedure requiring a work agreement between the dealer and the customer.

Senator BRICKER. What was the date of that?

Mr. FRENTZ. 1948. A work agreement. That was not used heretofore in title I. The reason we asked for that work agreement is that we wanted Mr. Lender, Mr. Banker—when I use the word "banker" it is a broad term, because it applies to national banks, State banks, savings and loan associations, finance companies, mortgage companies—the whole group of lending institutions that are in this business.

So, we asked, then, Mr. Dealer to furnish a copy of the work agreement to the homeowner, and then also to furnish a copy of that to Mr. Lender, so that Mr. Banker then would have in front of him at the time he purchased a note, a statement of materials being used and the price and so on going into the job. What we were endeavoring to do there was to have in the form of a sales contract or an agreement a clear understanding between the parties as to the job and what it was worth and what it was going to be. That was very effective and for a while that appeared to be a good solution.

In the meantime, we were stressing with our lending institutions a better and higher standard of dealer policy. Beginning in about 1950, the volume started to spurt on us, and that was primarily when our troubles started. I am setting it about 1950 or 1951. It started, as I say, in that period. At that period I think you will find in most cases is where the so-called fly-by-night salesmen started, in that period.

The CHAIRMAN. That is 1950-51?

Mr. FRENTZ. Yes; about that.

Now that we can look back, we can also look back and see signs day that we didn't see at the moment. But that was about 1950. Here were some, perhaps, in 1949.

Now, recognizing these problems, we set in to do something about . We definitely tightened our regulations. We definitely issued instructions. I know I personally traveled across this country, calling in our own field offices, our own directors, talking to banks, holding meetings with industry and with lenders, to see what could be done , strengthen this whole program.

This morning Mr. Hollyday outlined to you a number of steps that we took. One of the first things he said to me when he came in as the new FHA Commissioner was that he expressed his concern on this title I operation. At that time we organized or set up our own title I advisory committee, which he mentioned this morning.

The CHAIRMAN. You say the old advisory committee?

Mr. FRENTZ. Our own. In other words, a special committee only for title I, to advise us on this problem. We met twice—

The CHAIRMAN. That is the one of which you are going to give us the names?

Mr. FRENTZ. I have them here now.

The CHAIRMAN. Would you care to pass them up to us, please?

Mr. FRENTZ. Yes.

The CHAIRMAN. Just read them into the record, if you please.

Senator MAYBANK. Mr. Chairman?

The CHAIRMAN. Senator Maybank.

Senator MAYBANK. Before he does that, might I ask that one of the staff get a list of the number of projects that would have been above 90 percent, and have it put in the record?

The CHAIRMAN. As soon as we are finished with this gentleman on title I, I will have something to say on section 608, and then we will do that at that time.

Senator MAYBANK. Fine.

Mr. FRENTZ. This is the group of title I advisory committee that have been meeting with us: J. O. Elmer, of San Francisco.

The CHAIRMAN. What bank?

Mr. FRENTZ. American Trust Co., San Francisco.

E. F. Longinotti, of Memphis, Tenn. That is the Union Planters.

Richard Mange, of the National Bank of Detroit, in Michigan.

J. Andrew Painter, of the National City Bank, in New York City.

G. M. Robbins, of the First Bancredit Corp., of Minneapolis.

Richard H. Stout, of the Bank of Louisville, Louisville, Ky.

Kenneth R. Wells, of the American National Bank of Chicago.

With this group we discussed this problem and at the same time we also met with representatives of the National Retail Lumber Dealers Association, of the National Roofing & Siding Association. There was another Midwestern Lumber Dealers Association.

The CHAIRMAN. When were these meetings held?

Mr. FRENTZ. These were last—they started in June and continued the rest of the year.

The CHAIRMAN. June of last year?

Mr. FRENTZ. That is right, sir.

The CHAIRMAN. And prior to that time you had no meetings?

Mr. FRENTZ. We had meetings, but I am talking now about the advisory committee, and that group under the new rules.

Out of this series of discussions and meetings, then there evolve the amendments to the regulations that Mr. Hollyday mentioned this morning. Now, I will be glad to review those and if you care to—

The CHAIRMAN. I don't think it is necessary to review them.

Mr. FRENTZ. There is nothing much I can add to it, except I can illustrate, if you care to have me, the forms themselves and the letter that we used to put this into effect across the country.

The CHAIRMAN. Will you place in the files—I don't suppose you have them with you—all the forms and all the instructions and letters that you issued on the subject that you are discussing?

Mr. FRENTZ. I have them with me and I will do so.

(The forms referred to will be found in the files of the committee.)

The CHAIRMAN. Now, Mr. Frentz, do you feel, after having been with this title I since its inception, that the law ought to be amended or changed?

Mr. FRENTZ. I would say very definitely that either the law or the regulations can be substantially improved upon.

The CHAIRMAN. Are you prepared at the moment to tell us how the law ought to be changed, or the regulations, or do you care to give this to us a little later?

Mr. FRENTZ. I will be glad to discuss it now, sir.

The CHAIRMAN. All right. I just wanted to give you sufficient time to think it through and make certain that you thought you were right.

Mr. FRENTZ. I want to say that in discussing this problem, we want to draw a line between what may be in the regulations and what may be in the law.

The CHAIRMAN. Let me ask you this, if you please: You say now that you are prepared to tell us of changes that you think ought to be made in the law or the regulations. Let me ask you this: Why didn't you, when this present housing bill was before us in the past, offer suggestions for improving and amending this law?

Mr. FRENTZ. Sir, I believe the answer to that is that we endeavored to do this job by the regulations, and I feel at the moment that the regulations that we did put into effect in December have done a wonderful job in checking this abuse.

When you ask me whether the law could be amended, I would like to pick up at that point a possibility of amending the law to provide for some form of participation in the risk by the lending institution. That is a technical question; but if you care to discuss it—

The CHAIRMAN. You mean participation on the part of the bank?

Mr. FRENTZ. That is right.

The CHAIRMAN. More than it has at the moment?

Mr. FRENTZ. That is right.

The CHAIRMAN. Let me ask you this: Is there any reason why the dealer who sells the homeowner the product or the services and gets paid for it ought not to be paid until it's paid?

Mr. FRENTZ. That was mentioned this morning. Two things were mentioned: "with recourse" endorsement, or "without recourse" endorsement.

The CHAIRMAN. Is the note until it is paid?

Mr. FRENTZ. That is the answer. It is not.

The CHAIRMAN. I disagree with you 100 percent. It is 100 percent customary in private industry.

Let me say this to you, and maybe I am to blame, but I was under the impression that that was the way it was being operated. I presume the reason I didn't make more inquiry was because to me it was obvious that that is the way it ought to be operated and should be operated.

Mr. FRENTZ. Title I is operated in general with other forms of consumer credit, with the motor car and television and personal loans.

The CHAIRMAN. Mister, you are not telling us that radio and television sets and washing machines, on the part of the dealer, are sold with recourse.

Mr. FRENTZ. Without recourse.

The CHAIRMAN. I mean without recourse.

Mr. FRENTZ. A great deal of it, sir.

The CHAIRMAN. Did you ever do business with one of these finance companies? Just try to sell them your notes without recourse.

Mr. FRENTZ. Let me add this thought: That probably title I, while there is no accurate record—we probably insure in title I probably a third or 40 percent, perhaps, of the total volume of improvement work that is being performed. There is a lot of improvement work that is being done without FHA insurance.

The CHAIRMAN. I'll bet you the dealer in that instance signs the note before he sells it to the bank.

Mr. FRENTZ. I can also point out to you banks having their own uninsured repair programs, and likewise it is without dealer endorsement.

Bear in mind I am not arguing against dealer endorsement. I am endeavoring to give you the facts as I know them.

The CHAIRMAN. Let me say this: I say it in the most generous and kind way and not in the least bit critically of you. But your answers now are exactly the same as we have had from all administration witnesses and industry witnesses on this subject ever since I have been a member of this committee. In each instance we have ended up by permitting you to talk us out of, in my opinion, strengthening not only title I, but section 608 and all the others.

Mr. FRENTZ. Sir, this is my first appearance before this committee.

The CHAIRMAN. I made it a special point to have the staff go back and read all the testimony which we have, and they have briefed it for me, and I have it before me. It is really interesting reading. You are taking the same position, maybe rightly so. That is what we want to find out. This time I think we either ought to strengthen this law or we ought not to do it, and my best judgment is that we ought to do it.

Mr. FRENTZ. I will endeavor to give you the answers as clearly as I can.

The CHAIRMAN. In other words, we ought to strengthen the law. Don't forget it and quit blaming you or blaming other people for all these regularities that occur all over the United States.

Senator BRICKER. Mr. Chairman, may I ask a question right there?

The CHAIRMAN. Yes.

Senator BRICKER. Wouldn't a bond clean out the racketeers in this industry?

Mr. FRENTZ. That was mentioned this morning, and I don't know, sir, in the sense of whether or not a bond could be obtained or whether the bonding companies would issue the bond. I am not familiar with that.

Senator BRICKER. If the contractor were a substantial contractor and could get a bond, certainly and undoubtedly that would protect the public.

Mr. FRENTZ. Yes; it would.

Senator BRICKER. And if he were a racketeer, such as we are having trouble with now and we are discussing entirely, I think, in this testimony, he couldn't get a bond. He would be out of the business and it would be left to the legitimate and honest dealers.

Mr. FRENTZ. My approach to the bond is this: Offhand I would guess there must be 200,000 to 250,000 dealers in this country, the word "dealer" meaning anybody who may be in this particular business of repairing or improving properties.

Senator BRICKER. Most of them are honest, though, and live in the community and know the people they are dealing with and know the bankers.

Mr. FRENTZ. That is right. They are small-business men. Their net worth probably is \$5,000 or \$10,000 at the most; that is, the average. I am thinking, now, of the small-business man on Main Street who has his little plumbing store, his wiring shop, who may be doing some landscaping, or maybe doing other work. The lumberyards, of course, and a few others, may be bigger businessmen as far as capital worth is concerned, but nevertheless, they are small-business men. I am trying to visualize a bonding company issuing a bond to cover the small-business man that we have across the country.

I think it is worthwhile to explore it, absolutely.

Senator BRICKER. One more question, Mr. Chairman. Isn't the open-end mortgage provision of the new bill that is now before us subject to the same abuses that we have had under title I, except that the bank has its security?

Mr. FRENTZ. I am prone to answer that question in this fashion. In the open-end mortgage, the homeowner has to go into the lender to obtain his additional line of credit. Very frankly, we have been thinking seriously of requiring all homeowners to go into the bank and get their loans in the bank. When you do that, you will eliminate this irregularity that we are talking about.

I want to point out, though, when I make that recommendation, that there are areas of the country where the homeowners may not be able to do that. They are removed far from the lending institution that they may be doing business with. I grant you that we do have lenders in almost every county in the country, but there are certain areas where local lenders are not in the program and as a result, those people in those areas may not be able to get the financing that they should have or would want to have.

But in that point, that is where your open-end mortgage probably will be perfectly all right.

The CHAIRMAN. Did you have before you a list of the categories of items that you insure? (See p. 1597.)

Mr. FRENTZ. Let me interpret your question a moment. You want a list of the items that are eligible for insurance?

The CHAIRMAN. Eligible for improvements. For example, do you insure loans on landscaping and barbecue pits and fire alarms?

Mr. FRENTZ. Yes, sir; we do.

The CHAIRMAN. Barbecue pits?

Mr. FRENTZ. Yes, sir.

The CHAIRMAN. Fire alarms?

Mr. FRENTZ. Yes, sir.

The CHAIRMAN. And landscaping?

Mr. FRENTZ. Yes, sir.

The CHAIRMAN. What else? Plumbing?

Mr. FRENTZ. The question of eligibility is quite a broad one. When you start with this home of ours, you can start on the outside and work in. We have considered the language of the statute—our counsel has held and in previous meetings that any improvement upon or in connection with the structure is an eligible undertaking.

Now, we have no problem—

The CHAIRMAN. Say that again, please?

Mr. FRENTZ. Any improvement upon or in connection with the existing structure is eligible.

The CHAIRMAN. I guess you are possibly right. Without objection, I would like to place into the record at this time the exact language of the law, and I am reading now from a portion of it. [Reading:]

For the purpose of financing alterations, repairs, and improvements upon or in connection with existing structures and the building of new structures, upon urban, suburban, or rural real property—

including and so forth. You construe this to mean, then, repairs or improvements upon or in connection with existing structures. How would you qualify a fire alarm system under that?

Mr. FRENTZ. A fire alarm system has been held as being eligible because it becomes a part of the wiring system of the structure. This device, this fire alarm system that we have considered as being eligible—our General Counsel—I would like to say this, gentlemen, that I am responsible for title I operations administratively. I am not in the Legal Division and I am not writing the interpretations of the law and the development of the law. But fire alarm systems are wiring devices, the same as a burglar alarm system is a part of the lighting system.

The CHAIRMAN. Do you insure burglar alarms?

Mr. FRENTZ. Yes, sir.

Senator MAYBANK. In houses?

Mr. FRENTZ. Yes.

The CHAIRMAN. Who passes upon the categories of items or the items that come under this?

Mr. FRENTZ. Our General Counsel.

The CHAIRMAN. Your General Counsel?

Mr. FRENTZ. That is right.

The CHAIRMAN. Does it work like this, a manufacturer will come in and say, "I want you to make this product eligible for"—

Mr. FRENTZ. That is right; yes, sir.

The CHAIRMAN. Oh, that is the way it works?

Mr. FRENTZ. That is right. I would like to make this comment, that since last year we have had innumerable products submitted to us. America is on the move. All the new products that are being—

The CHAIRMAN. And you have been passing upon those yourself?

Mr. FRENTZ. The FHA.

The CHAIRMAN. You are going to give us a list of all the approved items?

Mr. FRENTZ. It would be a tremendous list, Senator.

Senator MAYBANK. There is no doubt about that.

The CHAIRMAN. Why would it be tremendous? Haven't you passed upon all of them?

Mr. FRENTZ. We will endeavor to do our best to get them all, if we can.

The CHAIRMAN. You say it would be a tremendous list. Do you mean a hundred items, maybe?

Mr. FRENTZ. Oh, it would be my rough guess there may be 500 or 600 or more.

The CHAIRMAN. 500 or 600 items to be sold on a home and which you will insure?

Mr. FRENTZ. Yes.

The CHAIRMAN. Don't you have any of them with you? Give us a list of some of them. Just name some of them, will you, please?

Mr. FRENTZ. I am reading from our administrative text to our regulations.

The CHAIRMAN. Wait a minute. Let me ask you this question. Do you mean 500 or 600 different categories or 500 or 600—

Mr. FRENTZ. Products.

The CHAIRMAN. Different products?

Mr. FRENTZ. Probably so; yes.

The CHAIRMAN. I don't have 500 or 600 different items in my home; do I?

Mr. FRENTZ. Yes.

The CHAIRMAN. I do? You mean 500 or 600 different items?

Mr. FRENTZ. When you come to structural improvements, there can be quite a list of improvements that will go into an average house.

The CHAIRMAN. Name some of them.

Mr. FRENTZ. Well, take curbside walks, sodding, landscaping in general. We will take sewerage connection to the main sewers, water connections, gas and light connections, driveways, garages. On the farms, we have silos and outbuildings of various types. That is what I meant by saying that there are hundreds of items.

The CHAIRMAN. Don't you think it was the intent of Congress that it was to be repairs such as roofs, sidings, floors, ceilings, and painting?

Mr. FRENTZ. The Congress wrote into the law, sir, that it also includes the insurance of loans for the erection of new structures, new nonresidential structures.

The CHAIRMAN. New structures meaning, I presume, a room to an existing house.

Mr. FRENTZ. No.

Senator MAYBANK. Is that how you got the barbecue pits in?

Mr. FRENTZ. The so-called barbecue pits were an improvement to the existing structure.

Senator MAYBANK. To the house?

Mr. FRENTZ. Yes.

Senator MAYBANK. That is out in the yard.

Mr. FRENTZ. By the same token, sir, the driveway and the landscaping are an improvement to the existing structure.

Senator BRICKER. I don't want to carry this too far, but would it cover swimming pools?

Mr. FRENTZ. Yes.

Senator BRICKER. Lightning rods?

Mr. FRENTZ. Yes.

Senator DOUGLAS. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. I was struck with one of your replies to Senator Capehart's questions; namely, you said that you would authorize loans on fire alarms. Is this fire alarm in a single-family house?

Mr. FRENTZ. The fire-alarm system is something that has hit us like a bolt of lightning, sir, about a year ago, and I do not mean to be facetious. I am quite concerned over fire alarms and there is a meeting in Washington this very week by the manufacturers because I, personally, have probably accounted for the fact that I have pricked their bubble.

Senator DOUGLAS. I am trying to find out whether you, as the FHA, authorize loans on fire-alarm systems in single-family houses?

Mr. FRENTZ. Yes, sir.

Senator DOUGLAS. What need is there for a fire-alarm system in a single-family house? I can understand the need in a multiple-family dwelling.

Mr. FRENTZ. You are asking me a question that, perhaps, a fire-alarm manufacturer should answer, but let me give you the answer that I get to that very same question. They come in and they show you where fire has broken out in a single-family home and the occupants have burned and died. They say that it is necessary for their protection and necessary for their own life.

Senator MAYBANK. If a person didn't wake up in smoke and fire, would they have such a powerful fire alarm it is going to wake them up?

Senator DOUGLAS. How widespread are these loans on fire alarms? Is this merely a sensational and amusing circumstance that we are illustrating, or has there been a considerable volume of that?

Mr. FRENTZ. The fire-alarm business started approximately last fall, perhaps even earlier in the summer. That is where we first started to have our trouble with this fire-alarm business.

The CHAIRMAN. What were your troubles?

Mr. FRENTZ. To me, using fear psychology in selling a product to a homeowner.

The CHAIRMAN. Why did you approve it?

Mr. FRENTZ. Our counsel was of the opinion, sir, that we had no other choice because of the wording of the statute.

The CHAIRMAN. Did you come before this committee or the House Banking and Currency Committee and ask an opinion about it?

Mr. FRENTZ. Not that I know of, sir.

The CHAIRMAN. When the bill was before us, which it still is, did you suggest to us that we change the law so you would not have to rule that fire alarms came within the sphere of the law?

Mr. FRENTZ. I have discussed this question with our counsel on a number of occasions to endeavor to find out whether or not there was

in the law a means whereby we could select these products and turn down others; in other words, an act of discrimination, perhaps.

The CHAIRMAN. What did your general counsel tell you?

Mr. FRENTZ. That we did not have the legal right to do so.

The CHAIRMAN. Why didn't you come before the committee, if you thought it was a good thing, and ask for the legal right to do so?

Mr. FRENTZ. Sir, we are here now. I will say this, sir, that I am limited in answering a question of that type. Others have been before me.

The CHAIRMAN. Who is the General Counsel of FHA, please?

Mr. FRENTZ. Mr. Howard Murphy is now the Acting General Counsel.

The CHAIRMAN. Who was the General Counsel?

Mr. FRENTZ. Mr. Bovard.

The CHAIRMAN. How long has he been there?

Mr. FRENTZ. Since 1935, Mr. Hollyday says.

The CHAIRMAN. He has been there since the inception of the law?

Mr. FRENTZ. I believe so.

The CHAIRMAN. When did he leave?

Mr. FRENTZ. A week or two ago.

The CHAIRMAN. Then he is the gentleman with whom you consulted last year and who made the ruling that fire-alarm systems came within the scope of the law?

Mr. FRENTZ. We consulted with the entire Legal Division in connection with our entire operation.

Senator DOUGLAS. Mr. Chairman?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Do you approve of loans on dog kennels? Are these eligible for FHA guaranty?

Mr. FRENTZ. I have not seen that come in as an eligibility question.

Senator DOUGLAS. You could not swear that it might not?

Mr. FRENTZ. No, I could not, sir.

The CHAIRMAN. You said earlier in your testimony that this was a pump-priming law. I think it is. The water is running all over everything.

Senator BUSH. Mr. Chairman?

The CHAIRMAN. Senator Bush.

Senator BUSH. You were about to get into the question of increased participation of banks in the risk through these loans a little while ago. Then we got into another angle. Would you take that up right there? You were going to make some suggestions as to how the banks might be expected to participate to a greater extent in the risk of these insured loans. I would like very much to have you develop that thought.

Mr. FRENTZ. I feel this way, that in making this title I a sound operation, that heretofore, the lending institutions have, in effect, had full insurance coverage. We had that this morning. And that, perhaps, one of the failures that I may term the word a failure, is that there is a participation in the risk between private industry and the Government that we now face today.

Certainly
boom peri

have been a much more careful scrutiny not only of the products, but so of the dealers themselves, and the type of dealers and the type of lessees.

SENATOR BUSBY. That is exactly the point I was trying to develop this morning, but I wish you would develop it further.

How would you think that the law or the regulations might be changed—we are more interested in the law right now—so as to require more realistic participation in the risk on the part of the lender?

MR. FRENTZ. There are a number of different ways of doing it but the earnest and clearest fashion, treating everyone across it equally. The very simple way of doing it, for example, is when a claim for loss comes in, instead of paying that claim for loss 100 cents on a dollar, perhaps pay a portion of that claim, 80 or 90 or 95 percent of that claim.

I make this point, that I believe it is not so much a matter of dollars to a lending institution but if you have them sustain a loss of principal, when they have to go before their senior officer and explain that loss of principal. Then that makes immediately the senior officers of the institution to scrutinize the lending operations of those down on the front-line making these consumer-credit loans. So, in our general thinking, as mentioned by the Commissioner this morning—

THE CHAIRMAN. Will you yield just one moment? I am going to have to leave here shortly and I want to make a statement before I do determine whether we will call Mr. Hollyday again. I want to ask Mr. Hollyday a question. Then we can proceed with this hearing if we care to.

Mr. Hollyday, now that Mr. Powell has refused to testify on section 608, he being the man in Government who handled it from its inception down to the present time—and I was informed he knows more about it than anyone else, being the senior administrative officer handling it—who else over there can we call to give us some information on section 608? As you know, at the direction of the President, the Internal Revenue Service delivered to us this morning the names of 149 concerns who have mortgaged-out on section 608, meaning that they have taken out more money than the cost of the project and in many instances they have declared big dividends. Who is it over in H.A.? Maybe it is yourself. You have been there a year. Who can give us the information that we ought to have on it?

While section 608 expired in 1950 and there has been no action under it since, or no loans made since 1950, section 213 in the proposed act and possibly section 203 and military housing are susceptible to the same sort of irregularities as section 608. We would like, as a committee, to make certain that we tighten the law with respect to those cases and any others that I didn't mention. Who can give us the information that we think we ought to have in respect to section 608, since Mr. Powell refuses to testify.

MR. HOLLYDAY. Senator, I believe that Mr. Perce who is, I think, an attorney as well as the right-hand man in that operation, would be an excellent person for this committee to invite here.

THE CHAIRMAN. What is his first name?

MR. HOLLYDAY. Le Grand Perce.

THE CHAIRMAN. What is his title?

Mr. HOLLYDAY. I think it is Associate General Counsel, assigned to the multiple-housing unit.

The CHAIRMAN. The General Counsel of the FHA is likewise the General Counsel who would handle section 608 matters?

Mr. HOLLYDAY. The General Counsel? Mr. Bovard is General Counsel for all operations; yes, sir.

The CHAIRMAN. And Mr. Bovard has been asked to resign and refuses to do so?

Mr. HOLLYDAY. That I do not know, sir.

The CHAIRMAN. Those are the facts. Mr. Murphy has been appointed to take his place; is that a fact?

Mr. HOLLYDAY. Mr. Murphy, in my opinion, sir, is one of the most able attorneys I have ever met, and I relied on him a great deal.

The CHAIRMAN. He has only been there a short time. Mr. Bovard has been there from the beginning of the law, you say?

Mr. HOLLYDAY. Mr. Murphy has been there a long time, and he is a very capable person.

The CHAIRMAN. He has been there many years too, has he?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. And he ought to know all the committee might want to know on it?

Mr. HOLLYDAY. Yes, sir; he should.

The CHAIRMAN. We have over 7,000 section 608 cases. As I said a moment ago, the Internal Revenue Service has turned over to us 1,149 of them. I might say for the benefit of the press so that you won't be telephoning us—not that we are not delighted to talk to you about anything and everything—that until the committee makes a ruling as to how we handle these 1,149 cases, the names will not be given out. However, I think the Internal Revenue Service has already given you the number of cases in each respective State. You have that. That is as much information as the law will permit us to give at the moment or until we can decide what the committee wishes to do with it.

I will say this, that there is no question but what the committee will call as witnesses before it many, many of the concerns among the list of 1,149 for questioning, and we will do that just as soon as we can report out this present bill and come to our conclusions as to what ought to be done with it.

Have you anything further, Mr. Frentz?

Senator BUSH. At your convenience, I would like to pursue my question.

The CHAIRMAN. Senator Bush.

Senator BUSH. Will you take up where you left off there again about the banks?

The CHAIRMAN. Will you yield just one moment because I may be leaving.

Tomorrow at 10 o'clock our witnesses will be Mr. Albert M. Cole and Mr. Walter L. Green, the former Deputy Commissioner of FHA, and a representative of the General Accounting Office. Those will be our witnesses at 10 o'clock.

Then on Wednesday we have the National Association of Home Builders and the Mortgage Bankers Association, and on Thursday the National Association of Real Estate Boards, the American Bank-

ers Association, the Life Insurance Association of America, and the National Association of Mutual Savings Banks. They will be with us on Thursday.

Senator FREAR. Mr. Chairman, may I put something in the record that I asked for on Mr. Hollyday's background this morning? He has supplied it and I would like to present it for the record.

The CHAIRMAN. I think we ought to read it for the benefit of everyone.

Senator FREAR. Very well.

The CHAIRMAN (reading):

Designed as—

President, Title Guarantee Co.

Vice president, Randall Wagner & Co. Inc.

Member, board of trustees, Savings Bank of Baltimore

Member, board of trustees, Loyola Federal Savings-Loan Association

To become Commissioner of the Federal Housing Administration

Presently:

Chairman of board, Council of Churches of Maryland and Delaware

President, Fight Blight Inc.

Member, board of directors, the Fight Blight Fund

Past President:

Mortgage Bankers Association of America

Real Estate Board of Baltimore

Alumni Association, Johns Hopkins University

Senator BUSH. Would you mind going back to where we were, Mr. Frentz, and go ahead with your explanation as to how the banks might become greater participants in this risk?

Mr. FRENTZ. I said that when a claim came in for us to certify and to pay, instead of heretofore paying 100 cents on the dollar in that claim we would only pay a ratio, a proportion. That would definitely cause, in my opinion, lending institutions to look at all their loans and look at them very carefully.

We can do that without redtape and without extra forms and extra expense.

Senator BUSH. Does that require any change in the law, in your opinion?

Mr. FRENTZ. Possibly it would. Our counsel was of the opinion last fall when we discussed this that perhaps we could do it without a change in the law. But I personally feel that if we had it in the law by Congress, that would give it more support and more weight and perhaps be better for all concerned, rather than to put it in the hands of the Administration and from time to time having changes made in it.

Senator BUSH. You really recommend, then, that the law be modified or amended so as to provide for it?

Mr. FRENTZ. I make this recommendation, sir, that it is one means of—a very effective means of—tackling this problem that we face today. We discussed it at quite some length last summer in this advisory committee of ours. There was considerable thought across the country in opposition to such a plan.

There was feeling that the small country bankers, for example, would drop out of the program entirely, that if they had to pay a premium and not get full insurance they should, or would go ahead and drop out of this program. There is quite a divided opinion on the subject.

Those who are against the idea are very strongly against it.

Senator BUSH. They are against it because they think it would result in supplying less credit for the renovation and improvement loans.

Mr. FRENTZ. That is right, sir.

Senator BUSH. Which would suggest, then, that a lot of the credits that are being made are not very good but they are being made because of the Government protection, is that right?

Mr. FRENTZ. No; I would not say that the credits are not good. I believe they are looking forward to the time when they may want more protection. They don't need it now in the sense that their record has been excellent.

We have outstanding in the hands of lending institutions, gentlemen, a billion and a half dollars. That is our approximate outstanding in title I loans today in the hands of banks across the country. Our delinquency on that paper, 90 days and over delinquency, as of the first year, was 1.1 percent.

So, if there was a rampant breakdown of this system across the country, I think it would be reflected in the delinquencies of this paper. The losses have not been high at all up to the present time. I grant you that we have had the economy in our favor, as you can well appreciate. But bear in mind the average note is around 36 months in maturity. The medium is around 32 or 33 months in maturity.

Basically you are making a loan to a homeowner and he honors his debt. It's only when you have unemployment and strikes and catastrophes of that kind that you have any mass default.

So our usual defaults are the human defaults of marital troubles, sickness, death, loss of a job and so on.

So fundamentally this program is sound to its very core, as far as doing the job it should be doing. Our difficulties are with this fringe element. Very frankly, they are our big problem. I wish I could share this problem with you, in the sense that we want to eliminate this fringe without its burdening the other 99 percent of the dealers and operators with restrictions that they themselves find difficult to operate under.

Senator BUSH. The fringe problem you speak of is the racketeer problem that we were discussing this morning?

Mr. FRENTZ. That is right.

Senator BUSH. That is the fringe problem?

Mr. FRENTZ. That is right.

Senator BUSH. Wouldn't that problem exist whether or not the FHA insured these renovation loans?

Mr. FRENTZ. In fact, sir, we have a procedure whereby we eliminate those people from the program when we come across them or find out about it. We have a procedure which we call our precautionary measures. In precautionary measures where we find that this condition exists with a salesman or a dealer or a group of people and we are able to tie it down and put our finger on it, we then issue precautionary measures against those people and we say that "any business you may do from now on the customer has to come in to the bank and sit down with Mr. Banker and sign the papers in front of Mr. Banker."

We take those measures against these—I will term them racketeers—where we have the facts and we can put our thumbs on them and tie them down.

We have placed on our so-called precautionary list approximately 1,300 of these people since 1950. We haven't been sleeping on this. I say that we have done the best we could with the tools that we had to do it with. I grant you that perhaps we should come back and have our meetings with you and tell you our problems more. This is the first opportunity that I have had to do that.

The CHAIRMAN. It's your own fault. I hand you 73 questions which I wish you would answer in writing for us and have them, if you possibly can, by Thursday. (See appendix, p. 1879.)

Mr. FRENTZ. I will be glad to.

The CHAIRMAN. I do this because you are the ranking administrative officer.

Senator LEHMAN. I am asking this question purely for the record. While it is quite possible that certain homeowners suffered loss or hardship by reason of unreasonable cost of their repairs or because they were persuaded to undertake projects for which they had little or no use, do I understand correctly that so far as the Federal Government is concerned it suffered no loss in connection with title I?

Mr. FRENTZ. That is correct, sir.

Senator LEHMAN. None at all?

Mr. FRENTZ. That is correct, sir.

Senator LEHMAN. The premium fully covered or somewhat more than covered the losses that came by reason of the guaranties?

Mr. FRENTZ. That is correct, sir. Since 1939 we have been entirely self-supporting.

The CHAIRMAN. What is outstanding at the moment, how many million?

Mr. FRENTZ. One billion five hundred million.

Senator LEHMAN. Mr. Hollyday, I don't know whether you testified at that point. Do you concur in that statement of Mr. Frentz?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. How many accounts are in arrears at the moment?

Mr. FRENTZ. I would say approximately 1 percent, sir, that is, 90 days and over. We consider an account in arrears—

The CHAIRMAN. The General Accounting Office will testify on that subject tomorrow. You say 1 percent?

Mr. FRENTZ. Let me make this clarification for the record. Our figure of 1 percent is based upon 90 days and over in default. In other words, people will be a week or 2 weeks or 3 weeks in default or 30 days in default and be cured.

The CHAIRMAN. As I said this morning, we are not concerned about the losses to the Federal Government at the moment or in the past or in the future. What happens is that if the account becomes in arrears, the bank can't collect it after using every conceivable effort on its part, then it turns it back to the Federal Government. Then the Federal Government turns it over to whom, the Attorney General?

It only makes sense that the people are going to pay the Attorney General of the United States because if they don't pay him, you know what happens if you fail to pay the Government. Certainly you are going to have a good record. We are concerned about that, of course, but we are more concerned about the advantage that has been taken of them—what we hope is not true but we are fearful it is—tens and tens of thousands of Americans.

The way it works, the Federal Government becomes the collector. I don't mind telling you, I have never had any experience with it but I think I would be afraid of a Federal collector. I think the average person is because they know the power of the Federal Government. They know the Federal Government has the power to reach right in and take everything that they have, and they have paid.

Certainly you are going to have a good record and you have had because you have got the Federal Government 100 percent behind you. If a man does not pay, the Federal Government, through the Attorney General, takes jurisdiction and I can imagine what happens when the Attorney General's agent shows up at some home and says, "Here. I represent the Attorney General of the United States and you owe X amount of money." They collect it, I suspect, in every instance.

Senator BRICKER. I have one more question. What has been the record of the lending institutions as to losses? Have you got that figure?

Mr. FRENTZ. Yes, sir; I mentioned it a moment ago. Our total claims to lending institutions since 1934 are approximately 2.3 percent of the total volume. Currently—when I say currently, let me make this comment. Beginning in 1950 we entered into what we termed an insurance program. Our losses since 1950 on the total volume insured are approximately eight-tenths of 1 percent. I am sorry, not the losses. That is a correction. Our claims to banks, claims to lenders.

The CHAIRMAN. If you have such a fine record, would you have any objection if we reduced the 10-percent guaranty on the part of the Government to 5 percent or 3?

Mr. FRENTZ. No.

The CHAIRMAN. You would have no objection to that? If there is nothing further, gentlemen, we will stand in recess until 10 o'clock tomorrow morning. Thank you.

(Whereupon at 3:20 p. m., the committee recessed, to reconvene at 10 a. m., Tuesday, April 20, 1954.)

HOUSING ACT OF 1954

FHA Insurance Provisions

TUESDAY, APRIL 20, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Committee met, pursuant to recess, in room 318, Senate Office
, at 10:20 a. m., Senator Homer E. Capehart (chairman)

Present: Senators Capehart, Bennett, Bush, Beall, Payne, Maybank,
Douglas, and Lehman.

CHAIRMAN. The committee will please come to order. Our first
will be Mr. Cole.

Mr. Cole, will you be sworn, please?

Mr. Cole solemnly swear to tell the truth, the whole truth, and nothing
but the truth, so help you God?

STATEMENT OF ALBERT M. COLE, ADMINISTRATOR, HOUSING AND
HOME FINANCE AGENCY

LE. I do.

CHAIRMAN. Mr. Cole, do you have a prepared statement?

LE. No, Mr. Chairman, I do not.

CHAIRMAN. Do you wish to make a statement before we ask you
any questions?

LE. If it is satisfactory with the chairman and the committee,
I will make a brief, preliminary statement.

CHAIRMAN. Suppose you proceed, then, in your own way.

LE. Mr. Chairman and members of the committee, I am
glad to have the opportunity to appear before this committee to dis-
cuss the problems of our mutual interest in providing assistance
to the people of America to obtain decent homes in good communities,
in which they live.

My purpose, here, today, I am sure, is to establish the fidelity and
efficiency of the agencies dealing with the people, with the lenders,
builders, and with the home buyers.

From the day that I came to say that in the year in which I have been Administrator, I
have had the complete cooperation on the part of people in the Agency,
I believe there are thousands and thousands of fine, honest,
employees in this Agency.

It is a difficult thing, of course, when we commence to investigate,
to find out in what way the machinery may have broken down. Our
purpose, therefore, Mr. Chairman, is to present to you facts concern-
ing what we believe may have been some breakdown in the machinery,

and then discuss with you what we may do and what Congress may do, and this committee may do, to tighten up the organization, the programs and the procedures in order that the Agency may do the job that you expect it to do.

In that connection, Mr. Chairman, I find that the people of America believe in this approach. I find that the industry groups believe in this approach. I find that builders and lenders all over the country are just as much interested in developing a sound organization as we are.

I want to read to the committee, if I may, a letter I received last night from the National Association of Home Builders. It is dated April 17, 1954. This is signed by Mr. R. G. Hughes, president :

Mr. ALBERT M. COLE,

Administrator, Housing and Home Finance Agency, Washington, D. C.

DEAR MR. COLE: The National Association of Home Builders welcomes a full, factual investigation into alleged abuses in the emergency postwar construction of FHA-insured rental housing. We also welcome a factual and complete investigation into alleged abuses of the title I repair-loan section of the FHA.

The home-building industry will not condone any fraud against the home-buying public or the United States Government. If any such frauds have been committed, they should be fully prosecuted.

NAHB's objective is to provide homes that are needed for the families of America. These homes should be provided at the least possible competitive cost and the greatest possible comfort, livability and design.

The home-building industry directly employs a million on-site construction workers and perhaps four times that number earn their livelihood in the related industries that supply lumber, concrete, steel, appliances, and other products for the home. Each year it creates more than \$12 billion of real wealth for the American economy. Therefore, our interest at this time, as always, is to provide the homes that Americans need and make our contribution to the Nation's economy.

In order to do this, it is extremely important that a good, practical housing bill be passed without delay. Since all of the new and forward-looking programs of the bill now being considered are dependent upon a good, workable FHA, and since the FHA has been the backbone of our industry, we urge you to take necessary steps to restore the confidence of the people in the integrity of the Federal Housing Administration. We pledge our cooperation toward these objectives.

(Signed) R. G. HUGHES.

Senator MAYBANK. Mr. Cole, that is a very excellent letter, and I thoroughly agree that is the way most of the home builders or housing people feel. But now we have some 1,149 cases that you are very well familiar with, that run from 110 to, I think, 140 percent overcharge.

Mr. COLE. They run from 100 percent to over 150 percent, sir.

Senator MAYBANK. Well, now, would you believe it a good idea to publish the names of these people?

Mr. COLE. Senator, I believe in complete and absolute goldfish-bowl operations.

Senator MAYBANK. I am glad.

Mr. COLE. May I point out or is not my judgment that all involved in illegal mortgage

Senator MAYBANK. I'd we might get thoughts or so it couldn't occur as

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thing in that connection? It
does lie therein would be in-

ted this, so that

ator MAYBANK. So these houses could be built at the lowest possible cost, for the benefit of the public. I didn't charge these people anything.

COLE. Oh, no. Senator Maybank, in following through with a great deal of caution which I had, I want to do everything possible to protect those who are not guilty of the violation of any law, and therefore if a man has, as I have put it before, if a man has outguessed an appraiser, and thus constructed his project at less cost than the interest, or mortgage, he would be in a different position.

ator MAYBANK. He certainly would, but I want to write this so that he can't outguess them.

Now when we had an off-the-record meeting here with you, and you said that you and your organization would try and help out, with the understanding that you have, to help us to get these titles that still exist, I thought they can't outguess the appraisers—I don't know whether you know it or not, but I think in some of these other titles, they have misled the appraisers. Would I be wrong?

COLE. Sir?

ator MAYBANK. I think in some of the other titles they have misled the appraiser.

COLE. That would not be entirely impossible.

CHAIRMAN. Mr. Cole, do you think the proposed legislation before this committee, which has already passed the House of Representatives, can be tightened up, or ought to be amended to avoid alleged irregularities that we have been reading about and talking over the past 10 days?

COLE. Mr. Chairman, I think in connection with the section 213 and section 207 program, that perhaps this committee should be considering adding to them the certification with respect to the so-called piggy-backing-out feature.

With respect to title I, it is my judgment that there is sufficient law in the books to operate the title I program effectively and satisfactorily. I do have some suggestions which, if the committee is interested, I will present to the committee for consideration. Most of them are administrative procedures and regulations which can be used to assist in tightening the organization and procedure with respect to title I.

CHAIRMAN. Now, Mr. Cole, will you just yield one moment? I want to place in the record at this time titles in the proposed legislation which might well be susceptible to the same sort of abuses we have been reading about.

I want to say that these titles were recommended by you, recommended by the administration, recommended by the builders, the mortgage lenders, and everyone else, and I think I am correct in this. If not, I want to be corrected—not one single word was said to them by any witness, administration witnesses or industry witnesses.

COLE. Or nonindustry witnesses.

CHAIRMAN. Or nonindustry witnesses, that the thing that we are presently now uncovering could happen. I want to show you—

ator MAYBANK. They said it couldn't happen.

CHAIRMAN. They have been repeatedly telling us it couldn't happen.

Here is section 207, rental housing. The mortgage must not exceed 80 and 90 percent of the estimated value. Without objection, I am going to place these in the record, that the Senators might well see this when we get to considering the matter.

Here is section 203, where the percentage of the mortgage that the Government will insure is 95 percent, and the same language as we have had in the old bills.

Section 8 is called Sale Housing, and it is 95 percent of appraised value, which is susceptible possibly to the same sort of abuse.

Here is section 220. That is a new section which we heard a lot about. It talks about 90 percent of estimated value, including land and other fees and charges.

The same type and principle as the old section 608, and it is susceptible to the same sort of abuses.

Section 221 is 100 percent mortgage guarantee, and 40-year loans. That is susceptible, we believe, to the same sort of abuses.

And finally we have section 213 which is cooperative housing, which, of course, is susceptible to 90 percent of—the Federal Government is guaranteeing 90 percent of the mortgage, and 65 percent of the participants—meaning those buying the co-op; if they are veterans, it is 95 percent.

So you see, in this proposed bill, we have 6 sections that might well be susceptible to the same sort of abuses as the old section 608, which expired in June.

(The documents referred to follow:)

SECTION 207—RENTAL HOUSING

Insurance on mortgage amounts up to \$5 million; up to \$50 million where the mortgagee is a Government instrumentality or nonprofit cooperative, and its operations are subject to regulation by an agency of Government. The mortgage amount is not to exceed:

- (a) 80 percent of the estimated value of the property.
- (b) 90 percent of estimated value, if the mortgage does not exceed \$7,200 and if the number of bedrooms equal or exceed two per family unit.
- (c) Maturity determined by the Commissioner—customarily 39 years, 3 months.
- (d) \$2,000 per room, not in excess of \$10,000 per family unit (\$7,200 per unit if the number of rooms do not equal or exceed four).

Key changes in S. 2938

- (a) Removes the \$10,000 maximum mortgage limitation.
- (b) Increase the per room mortgage limitation from \$2,000 to \$2,400, if elevator type. Also increases \$7,200 limitation to \$7,500 where unit is less than four rooms.

SECTION 203—SALE HOUSING

Insurance on mortgage amounts up to \$16,000 for single or two-family type, \$20,500 on three-family type, \$25,000 on four-family type.

- (a) The mortgage amount is based on appraised value.
- (b) The maturity is 20 years on an existing structure, 25 years on new structures, and 30 years on low priced section 203 (b) (2) (D) loans.

On the section 203 (b) (2) (D) loans (95 percent on \$7,000 houses) the builder is allowed only 85 percent loans.

ed and current schedules of maximum mortgage amounts for 1- and 2-family home mortgages insured under FHA sec. 203

Appraised structure)	Proposed				Current			
	1- and 2-family, new and existing, (all mortgagors except operative builders)		1-family new, sec. 203 (b) (2) (D) ¹ (owner-occupant mortgagors)		1-family new, sec. 203 (b) (2) (C) ² (owner-occupant mortgagors)		1- and 2-family new and existing, sec. 203 (b) (2) (A) ³ (all mortgagors except operative builders)	
	Maxi- mum in- surable mort- gage ⁴	Loan- value ratio	Maxi- mum in- surable mort- gage	Loan- value ratio	Maxi- mum in- surable mort- gage	Loan- value ratio	Maxi- mum in- surable mort- gage	Loan- value ratio
		Percent		Percent		Percent		Percent
	\$3,800	95.0	\$3,800	95	\$3,800	95.0	\$3,200	80.0
	4,750	95.0	4,750	95	4,750	95.0	4,000	80.0
	5,700	95.0	5,700	95	5,700	95.0	4,700	80.0
	6,650	95.0	6,650	95	6,650	95.0	5,400	80.0
	7,600	95.0	7,600	95	7,350	91.9	6,400	80.0
	8,550	92.8	8,550	95	8,050	89.4	7,700	80.0
	9,100	91.0	9,500	95	8,750	87.5	8,400	80.0
	9,850	89.5			9,450	85.9	8,900	80.0
	10,600	88.3					9,600	80.0
	11,350	87.3					10,400	80.0
	12,100	86.4					11,200	80.0
	12,850	85.7					12,000	80.0
	13,600	85.0					12,800	80.0
	14,350	84.4					13,600	80.0
	15,100	83.9					14,400	80.0
	15,850	83.4					15,200	80.0
	16,600	83.0					16,000	80.0
	17,350	82.6					16,800	76.2
	18,100	82.3					17,600	72.7
	18,850	82.0					18,400	69.6
	19,600	81.7					19,200	66.7
	20,000	81.3					20,000	65.0

ed terms for 1- and 2-family new and existing: not to exceed 95 percent of \$8,000 value and 75 percent in excess of \$8,000, and not to exceed a mortgage of \$20,000.

at terms for 1-family new under sec. 203 (b) (2) (D): not to exceed 95 percent of value and not to mortgage of \$6,650, plus \$950 per room for 3d and 4th bedrooms.

at terms for 1-family new under sec. 203 (b) (2) (C): not to exceed 95 percent of \$7,000 value and 70 percent in excess of \$7,000, and not to exceed a mortgage of \$9,450.

at terms for 1- and 2-family new and existing under sec. 203 (b) (2) (A): not to exceed 80 percent and not to exceed a mortgage of \$16,000 per structure.

structure.

um of 3 bedrooms per family unit.

um of 4 bedrooms per family unit, or minimum of 3 bedrooms per family unit in geographic area

missioner finds cost levels so require.

um of 4 bedrooms per family unit in geographic area where Commissioner finds cost levels so

anges made by S. 2938

maximum mortgage amounts insurable are \$20,000 on a 1- and 2-family
\$7,500 for a 3-family, \$35,000 for a 4-family.

The maximum maturity on all loans, including existing structures is 30

The ratio of loan to value is increased all along the line as shown on table:
ent on first \$8,000 (House bill 95 percent of first \$10,000) and 75 percent
\$1,000 (in House over \$10,000).

TITLE I—SECTION 8 SALE HOUSING

aded for families of low and moderate incomes, particularly in suburban
lying areas. Less stringent property requirements (neighborhood, utili-
ties, transportation, schools, and degree of completion or finish of house)
licable. Mortgage amount not to exceed:

95 percent of appraised value, in an amount not to exceed \$5,700.

85 percent or \$5,100 for builder.

Maturity not to exceed 30 years.

Interest is now 4½ percent, and an extra ½ percent fee is allowed.

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Key changes in S. 2938

Transferred to title II of the act, intended to be administered with the similar property standards.

SECTION 220

Intended to assist in the rehabilitation of existing dwellings and the construction of new dwellings in urban renewal areas. The mortgage is not to exceed:

- (a) 90 percent of estimated value, including land and other fees and charges.
- (b) \$2,250 per room and \$2,700, for elevator type.
- (c) Mortgage also available for existing and new 1- to 4-family structures where the mortgage would be same as for section 203 (95 percent of \$8,000, 75 percent over \$8,000; in House bill, 95 percent of \$10,000 instead of \$8,000).
- (d) The maturity of the loan could not exceed 30 years.

SECTION 221

(100 percent, 40-year loans)

Available for families displaced by slum clearance or other governmental action in communities that requested it and where they have an acceptable program of urban renewal.

(a) The mortgage amount could not exceed \$7,000 (House passed bill \$7,800 and \$8,600 in high cost areas) or 100 percent of appraised value, on new or rehabilitated structures. The owner-occupant is required to pay \$200 for settlement charges.

(b) Maturity of mortgage is 40 years. A builder can get a mortgage for 95 percent of appraised value.

(c) The mortgagee has the option after 20 years to assign the mortgage to FHA and receive 10-year debentures for unpaid balance of loan plus accrued interest.

SECTION 213—COOPERATIVE HOUSING

Insurance on mortgages amounts up to \$5 million on cooperative projects. The maturity of the loan is 40 years. The mortgage amount is not to exceed:

- (a) 90 percent of replacement costs.
- (b) 95 percent of replacement costs when 65 percent of the cooperators are veterans; the ratio would be lessened proportionally down to 90 percent, as the percent of veterans decreased to 50 percent.
- (c) \$8,100 per family unit or \$1,800 per room when the mortgage is 90 percent of cost.
- (d) \$8,500 per family unit or \$1,900 per room when the mortgage is 95 percent of cost.

The current interest rate on section 213 management type is $4\frac{1}{4}$ percent; on individual type $4\frac{1}{2}$ percent.

Key changes made by S. 2938

1. Increases the possible mortgage amount on a single mortgage to \$25 million if the mortgagor is regulated by Federal or State law as to rents, charges, and methods of operation.

2. Would change the basis for determining the mortgage amount from "replacement cost" to "estimated value" (less liberal).

3. The ratio of loan to value would be 90 percent, unless at least 65 percent of the cooperative membership were veterans in which case it would be 95 percent. This avoids the complicated computation in present act.

4. When loan is 90 percent of value.

(a) Mortgage amount \$2,250 per room.

(b) Mortgage amount \$2,700 per room in elevator type.

5. When loan is 95 percent of value.

(a) Mortgage amount \$2,375 per room.

(b) Mortgage amount \$2,850 per room in elevator type.

The CHAIRMAN. Now, my question to you is, are they susceptible to the same sort of abuses?

Mr. COLE. I don't believe they are all susceptible to the same sort of abuses.

The **CHAIRMAN.** Are they susceptible to any kind of abuses?

Mr. COLE. I think they are susceptible to some kind of abuse.

The **CHAIRMAN.** Are you prepared, today, to recommend to this committee how we may tighten the law on those six sections to absolutely avoid the type of irregularities that we have been reading about, and if not, the next question is, do you think you can give us proposals in writing within a week's time, based upon the experience of your organization, that will estop, in the future, these alleged irregularities?

Mr. COLE. We will provide the committee with our recommendations in writing.

(The information requested will be found in the files of the committee.)

Mr. COLE. Prior to that, however, and for the purposes of this discussion, let me say, however, that in my judgment, the loan-to-value ratio is not a relative matter in connection with the windfall or mortgaging-out feature.

In other words, the fact that a project may receive insurance up to 100 percent or 90 percent, or 75 percent, generally——

Senator DOUGLAS. That makes no difference?

Mr. COLE. It is my judgment that the abuses do not occur by reason of either a large loan-to-value ratio, or a limited loan-to-value ratio.

Senator DOUGLAS. If you have an unlimited guaranty, Mr. Cole, what inducement is there for the lending agency to observe precautions, unless they are risking some of their capital? How can they be expected to be careful in the making of the loans?

Mr. COLE. Senator Douglas, in my opinion, the mortgaging-out feature had to do with the estimate of the cost. The appraiser estimated the cost to be, let us say, \$1 million. The builder constructed the project, for example, for \$800,000. He had, therefore, a mortgaging-out, or windfall, of \$200,000. Now, that sort of an operation has nothing to do with the amount of insurance or the amount of the mortgage granted.

The **CHAIRMAN.** Your point is whether it was to be a guaranty of 20 or 80 percent would make no difference in principle in the operation of this particular type of legislation, is that your point?

Senator LEHMAN. May I ask a question?

The **CHAIRMAN.** Senator Lehman.

Senator LEHMAN. You said that you believe in most instances, or not in most instances, in the list that has been submitted of 1,192 names and projects, that the work was done in accordance with law. There was no breach of the law, and you stated that you thought in some cases that the builder had simply outguessed the appraiser.

Mr. COLE. I am sure, Senator, that must have occurred.

Senator LEHMAN. If that is the case, there must be one of two things, it seems to me; either thoroughly inefficient appraising by the appraiser, or some kind of corruption or collusion.

Mr. COLE. That is right.

Senator LEHMAN. Regardless of whether it be a matter of careless or inefficient appraisal, or collusion, do you think that under the law the builder should be able to take advantage of that situation?

Mr. COLE. No, sir, I do not.

Senator LEHMAN. But he can, now, can't he?

Mr. COLE. He can't, now, under section 608; it is possible that he might under sections 207 and 213; yes, sir.

Senator LEHMAN. It seems to me that when that is demonstrated, that there has been either inefficient appraisal or corruption, which makes it possible for the builder to take advantage of the situation and to work some hardship on the occupants of the buildings, that the Government should have the means of preventing that, even after the act, even for a very substantial period after the act.

Mr. COLE. I would agree, sir.

The CHAIRMAN. Mr. Cole, why don't you proceed? I think I asked you a question as to what you think we ought to do in connection with these six titles.

Mr. COLE. Some of these titles, Senator, have provisions which require the builder to certify the amount of his cost, and if the costs of the project are less than the mortgage, or the insurance, he must total the mortgaging-out amount, the windfall, and apply that upon the mortgage.

In other words, reduce the mortgage by the amount of the windfall.

It is my opinion that those rental provisions, the provisions for rental projects, should also contain this requirement.

I am of the opinion, based upon our present studies, however, Senator, that it would not work in section 203. These are sales houses. These are houses built in individual units and sold to individual people, and the same problem is not inherent in the program, in section 203.

Senator DOUGLAS. Why not?

Mr. COLE. Well, Senator, the mortgaging-out feature developed by reason of the fact that the builder establishes a corporation wherein he obtains the benefit, or the corporation obtains the benefit of the windfall.

This is a project held by that corporation or sold to another corporation to rent. Now, when they build and sell, they would not have the same profit involved in the transaction where they sell it to individual people, individual units to individual people.

Senator DOUGLAS. Is the corporation dissolved upon the completion of the project?

Mr. COLE. Some of them do dissolve.

Senator DOUGLAS. Was that a wide practice?

Mr. COLE. It is my opinion to say it is a fairly general practice.

Senator DOUGLAS. That is so ingenious a method that it could not have been discovered independently by a wide variety of persons. It must have been passed on from group to group; I am sure that you wouldn't have such an ingenious plan as that developed by 1,100 and how many? One thousand one hundred and seventy-nine people, independently. You might have 2 or 3 people hitting upon it, but I doubt that you would have such universal practices.

Mr. COLE. I would agree, sir. I would agree.

Senator DOUGLAS. Have you ever given consideration to probing the degree to which this practice was inspired inside the industry?

Mr. COLE. I would say that we certainly plan to and will probe the entire matter, to cover the entire phase of it, sir; yes.

Again, may I add parenthetically, and say very frankly that I agree the National Association of Home Builders about our objective

and there are thousands and thousands of honest home builders in this country, and we don't want to point the finger at an industry because they are doing a marvelous job. They have been and are continuing and will do so in my opinion.

Senator LEHMAN. As a practical application, may I ask you to what extent have the overages of mortgage money, over actual contractors' costs, been applied to the mortgages?

Mr. COLE. In those cases which now have the provision?

Senator LEHMAN. Yes.

Mr. COLE. In the section 608 cases, none, in my opinion, or almost none.

Senator LEHMAN. Almost none that have been applied against the mortgages?

Mr. COLE. That is right. You see, Senator, this is a practice where the corporation builds the project, they find at the end that they have the windfall or the mortgaging-out. The windfall. They immediately declare a liquidating dividend, instead of applying it upon the mortgage. This is my judgment—and it is purely judgment—my judgment is that we will find almost none of these corporations applying the windfall to the reduction of the debt.

Senator MAYBANK. And to keep the record clear, if the Senator will yield, in addition to the windfall they put in their pockets, they charged rents on the windfall.

Mr. COLE. That is very true.

Senator MAYBANK. Because you raised the thing from \$1 million to \$1.2 million, and amortized the loan and charged the poor people the rent on the basis of \$1.2 million. So for every dollar of windfall, there is \$2 of rent, if you figure how money and interest doubles itself.

The CHAIRMAN. Mr. Cole, we had a series of questions that we were desirous of asking Mr. Powell yesterday, and Mr. Powell, as you know, refused to testify. They had to do with section 608, which section expired in June 1950. Are you familiar enough with the operation to answer the questions, or who is within the administration?

Mr. COLE. Mr. Chairman, we will be pleased to have you ask me the questions, and we will do what we can to answer them.

The CHAIRMAN. Possibly we had better ask the questions of Mr. Greene.

Senator DOUGLAS. Just a minute, before Mr. Greene takes the stand. May I ask a question?

The CHAIRMAN. We are not going to call Mr. Greene at the moment.

Mr. Greene was the FHA Administrator, was he not, for many years?

Mr. COLE. He was Deputy Commissioner, and then became Acting Commissioner, and then when Mr. Hollyday was appointed Commissioner, Mr. Greene became Deputy Commissioner under Mr. Hollyday. He has had a long career in the FHA. He knows the program.

The CHAIRMAN. Mr. Cole, I hold in my hand a resolution passed by the Mortgage Bankers Association of America, Mr. W. A. Clark, resident, in which they accuse you and the President of the United States of having some sort of ulterior motives in the discharge of Mr. Hollyday. I would like to read that paragraph.

Mr. Clark will be here to testify tomorrow, but I think it has some bearing on this phase of our investigation, which is really a continuation of our study of the proposed legislation. I want to just read this paragraph. It says:

In our opinion, Mr. Hollyday's resignation has been forced not because of any indifference to abuses of the FHA system, even though that is the announced reason. We wonder whether the real motive behind this summary firing is the fact that Mr. Hollyday is known to have opposed the administration's plan to transfer from FHA to the Housing and Home Finance Agency the authority and the responsibility placed by the Congress with FHA.

The effect of Mr. Hollyday's firing is to remove a man who opposes this centralization of control which he believes to be wrong, and the weakening of the agency he was appointed to administer.

Now, let me ask you this: Did you discharge Mr. Hollyday?

Mr. COLE. Of course not. Mr. Hollyday was a Presidential appointee.

The CHAIRMAN. Who did ask Mr. Hollyday for his resignation?

Mr. COLE. Mr. Chairman, I am not in a position to answer that. He is a Presidential appointee. I understand that he tendered his resignation. That is a matter for the White House.

The CHAIRMAN. All right. I think it has been cleared up as to how it happened.

Now, my point is, was there ever any difference between you and Mr. Hollyday or the administration and Mr. Hollyday? Was there at any time ever discussed the matter of reorganization, and were there any differences of opinion about the matter?

Mr. COLE. Mr. Chairman, this committee and people in our Agency and the people in this room all have differences of opinion about a certain matter, whatever it may be. We have differences of opinion in our Agency now as to what we should have or are presenting to the Congress with respect to the bill which we presented. I have differences of opinion with people sitting right back of me, and they with me, on matters which we are discussing currently, every day.

I have differences of opinion with the Commissioner in Public Housing. I have differences of opinion with the Chairman of the Home Loan Bank Board. We have differences of opinion every day, sometimes. We sit down, we discuss them, we then finally come to a decision. Of course we have differences of opinion, Mr. Chairman. Of course I have had differences of opinion with Mr. Hollyday, and he with me. That is the natural course of events in either agency procedure, business procedure or in Congress.

Now, I think it is a fair question, however, and the Commission suggested by this letter, that I proceed to discuss the reorganization matter.

The CHAIRMAN. Let me ask this question. I think you can answer it yes or no. Did the President of the United States, who appointed Mr. Hollyday in the first place—and I think there is no question but what he asked for his resignation—did he ask for his resignation because Mr. Hollyday was opposed to something that the administration—meaning the President of the United States—was desirous of doing?

Mr. COLE. Absolutely not.

The CHAIRMAN. There is no truth in that statement whatsoever?

Mr. COLE. Why, of course not.

The CHAIRMAN. However, the Mortgage Bankers Association made an accusation against the President of the United States.

Mr. COLE. Mr. Chairman, I answered it that way because I believe so. You must realize that I don't know what is in the mind of the President of the United States but I say positively, absolutely and vigorously, that that was not the reason.

Senator DOUGLAS. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Did you ever recommend to Attorney General Brownell, or to Governor Adams, or to anyone at the White House, at the resignation of Mr. Hollyday be requested?

Mr. COLE. Yes, I did.

Senator DOUGLAS. You recommended that his resignation be requested?

Mr. COLE. Yes.

Senator DOUGLAS. To whom did you make this request?

Mr. COLE. I made the request to the White House, sir.

Senator DOUGLAS. Why did you make the request?

Mr. COLE. Well, if the Senator will permit me, I think I should go into the entire situation and tell you why. There are three matters which I will discuss with the committee leading up to this situation. These three matters have to do with title I and section 8, and personnel policy within the FHA agency.

On April 29, 1953, I received a report from the FBI regarding widespread abuses, frauds, and other activities in California, concerning title I. I sent this memorandum to Mr. Hollyday and the FHA, requesting that they investigate the situation thoroughly and furnish me a report. Parenthetically I want to point out that prior to my becoming Administrator, the former Administrator, Mr. Foley, had requested the FHA to furnish the Administrator all reports, all commendations, all investigations which were made by the FHA.

On June 4, 1953, and then later June 11, 1953—this was shortly after both of us came into the office—we received a memorandum from a regional representative of the Housing and Home Finance Agency, in which he described—in which memorandum he described the abuses, the frauds, and the other activities in connection with title I. This memorandum was sent to Mr. Hollyday with a request for a full and complete investigation and a request that the report be made to me concerning what they had found and what action had been taken.

On June 16, 1953, I received a letter from a Washington—a District of Columbia attorney—transmitting to me proofs of an article to be published, describing the widespread abuses of FHA's title I program, the frauds that were being carried out and the rackets that are being conducted.

Senator DOUGLAS. Was this the article that later appeared in Consumers Reports?

Mr. COLE. That is right.

That I transmitted to Mr. Hollyday with a request that this seemed to be a very serious situation, and asked that it be investigated thoroughly and that I be advised concerning the activities and the results of the report, and what action was taken.

On June 24, 1953, I personally delivered to Commissioner Hollyday, an FBI report regarding what I may, if you will permit me, call the company of California, indicating a widespread violation on the

part of that company and companies affiliated with it, and asked for a report with respect to that—investigation and report.

Senator FREAR. Were these title I violations, Mr. Cole?

Mr. COLE. All these I am now discussing are title I violations.

On June 29, 1953, I sent a memorandum to Commissioner Hollyday, transmitting proofs of an article on an FHA title I violation which was contained in the Consumers Reports, and the memorandum which I sent Mr. Hollyday contained in part as follows:

It seems to me that a situation has arisen in connection with title I loans which indicates the necessity for a thorough and complete study of that program with a view of amending the regulations and procedures in an attempt to prevent the many irregularities which now appear to exist.

On July 22, 1953, the Director of the Compliance and Special Investigations of the Office of the Administrator, Housing and Home Finance Agency, had a discussion with the Department of Justice regarding the widespread pattern of violations of title I. The Department of Justice reported to him that they were beginning to investigate and conduct a survey of these violations because it appeared to them that modest homeowners were being fleeced through the use of title I authority.

At that time, and this is to the best of my recollection—it was on the same day—if not on the same day, it was very shortly thereafter, I advised Commissioner Hollyday that the FBI was preparing to investigate the California FHA title I investigations and that if FHA was not going to do so, I urged that the FBI be requested to make the investigation. You will recall that such a request must come from FHA. I was informed that the FHA was looking into the matter and on July 26, 1953, I received a memorandum from Commissioner Hollyday acknowledging receipt of materials on the X company and proofs of the articles on FHA title I violations, and schedule for publication in the Consumers Report, and advising that he had sent three investigators to California. I received additional FBI reports with respect to title I violations and they in turn were conveyed to and transmitted to Mr. Hollyday, with request that he investigate and report to me concerning the investigation and action taken thereon. On November 20, 1953, the Department of Justice advised FHA General Counsel that full investigation of the X construction company, and Y credit company—I will furnish these names if the committee desires—would reveal transactions, many transactions implicating their officials, and/or salesmen.

On November 25, 1953, FHA's General Counsel replied to the Department of Justice that the local, that is the California—the local United States attorney—the United States attorney's office was contacted and that FHA found no cases where further information was indicated.

On February 12, 1954, Assistant Attorney General Olney, in charge of the Criminal Division of the Department of Justice, came to my office and advised me that the Department's survey of the FHA title I violations in California and elsewhere.

On February 2, 1954, Commissioner Hollyday advised that, while there were a number of title I violations by the X corporation, our investigation of the X corporation part, even

though two men spent considerable time in California attempting to obtain full information. The report from Mr. Olney was to the effect that the FHA title I violations or violations having to do with the transactions in connection with the title I, that they were widespread, that complaints were available and many.

As a matter of fact, the local district attorney advised that they have 100 complaints in their office and they had not been investigated.

On March 9, 1954, I requested Commissioner Hollyday to furnish copies of the investigative reports on the California FHA title I violations.

On March 22, 1954—parenthetically, I say that between the date which I first gave, April 29, 1953, and this date which I am now about to give, March 22 and 24, 1954, I received no reports, no recommendations, no advice as to what the investigators found, nor what, if any, disciplinary actions had been taken.

Memoranda submitted to Administrator Cole—to me—from the FHA, containing results of the investigation, were analyzed by me and by my staff. I have available for the committee's examination, if you care to see, what was done in connection with the investigations which were carried on at that time.

Now, Mr. Chairman, and Senator Douglas, there were two investigative actions being taken in connection with the title I violations in California and in the country. One of them apparently was being taken by the FHA—being conducted by the FHA. One was being conducted by the Department of Justice, with my knowledge and my understanding that they were so doing.

The Department of Justice provided me with the first information, the first understanding of what actually was occurring and had occurred in the operations with respect to title I.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Did Mr. Hollyday know that the Department of Justice investigation was proceeding concurrently?

Mr. COLE. Yes. I told him either on July 22, or a day or so thereafter, that that was being carried forward.

The reports from the FHA, as I have indicated here—and these are typical—the reports from the FHA indicated that, first when an investigation was conducted, the investigation was not completed, in many instances, and that when disciplinary action was indicated, such action was not taken.

The CHAIRMAN. Do you mean by that that he did not take the necessary steps to discharge the people?

Mr. COLE. Most of these cases, sir, did not have to do with the personnel of FHA. Most of them had to do with abuses, with fraud, having to do with the dealers and the lenders.

Now, the FHA did take many steps, many steps, to discipline many people, you will understand. The point that I am making is, first, that the requested investigation of widespread abuses, the requested information for reports with respect to individual cases, were never complied with, in these individual cases. I am not saying that they didn't do anything. They did a great deal. They published what I term a black list, on many companies, saying that these companies had violated some of the FHA regulations and therefore you are put on notice not to do any further business with them. That was done.

The point, again, that I make, in connection with the FHA transactions, was this, that, first, the request for investigation and report was not complied with in this and other cases, nor was disciplinary action taken when abuses were found in a number of important cases.

Senator DOUGLAS. Disciplinary action against whom, Mr. Cole?

Mr. COLE. Against the lender or the dealer.

Senator DOUGLAS. In other words, you say the California abuses were not proceeded against, is that right?

Mr. COLE. Yes. Not proceeded against, or not investigated or disciplinary action taken in the important ones.

Again, as I reported here, the memorandum came back to me, now, advising me that no action was indicated. The FHA had made the report, that he had made their investigation and no action was indicated. I knew nothing to the contrary until the Department of Justice reported to me with respect to their findings, in which they pointed out very clearly that they had sufficient cases to act upon, and that action was indicated. We have this documented if the committee would be interested in that.

Now, may I proceed to section 608?

The CHAIRMAN. Give me just one question: Serious allegations have been made, both, I believe, by you and I think by Mr. Hollyday—at least they have been in the newspapers. I believe they were made yesterday by Mr. Hollyday, against a “high official in FHA.”

Mr. COLE. Yes.

The CHAIRMAN. Did that high official work for Mr. Hollyday?

Mr. COLE. Yes.

The CHAIRMAN. Why did not Mr. Hollyday discipline or discharge or bring the allegations that are now being continuously referred to against this gentleman months ago?

Mr. COLE. Senator, I do not know. I discussed the matter with Mr. Hollyday shortly after we both came into office. I pointed out to him that while I had no facts myself that I had heard some comments about this individual which indicated to me that he was a gambler and that I felt that a man in charge of an important segment of the FHA operations, where he had important decisions to make concerning whether or not one company obtained a commitment, or another company obtained a commitment, that it indicated a complete investigation of his situation to determine whether he should remain on the payroll.

The CHAIRMAN. Was an investigation made by Mr. Hollyday of this gentleman?

Mr. COLE. That, I do not know.

The CHAIRMAN. How long ago was it called to Mr. Hollyday's attention, the supposed record of this gentleman?

Mr. COLE. Mr. Chairman, I pointed it out to him shortly after we both came into office. Mr. Hollyday knew of it, I am sure, in July of last year.

The CHAIRMAN. Was it your responsibility or his responsibility to discharge this gentleman?

Mr. COLE. Mr. Chairman, I have no control over the FHA. None.

The CHAIRMAN. In other words, it was Mr. Hollyday's responsibility?

Mr. COLE. Yes, it is Mr. Hollyday's responsibility. I have no control over the FHA.

The CHAIRMAN. You say you have no control over it?

Mr. COLE. That is right.

The CHAIRMAN. You have no authority to hire or fire anyone?

Mr. COLE. I have no control. I am merely a supervisor. I just talk them.

The CHAIRMAN. You are a coordinator?

Mr. COLE. A coordinator.

The CHAIRMAN. In other words, you have no authority to make HA or the Commissioner render to you any reports?

Mr. COLE. No; I have no authority to force them or direct them or go into their agency and require that they do anything.

The CHAIRMAN. In other words, your job is one of coordination?

Mr. COLE. General supervision and coordination.

The CHAIRMAN. And to bring the agencies together and to try to ordinate their activities?

Mr. COLE. Yes.

The CHAIRMAN. You say that you have no authority to hire or fire anyone within FHA?

Mr. COLE. That is correct.

The CHAIRMAN. You do have authority to call to their attention—

Mr. COLE. That is what I did, and I think that is my responsibility.

The CHAIRMAN. Call to their attention discrepancies?

Mr. COLE. I think that is my responsibility and that is what I did.

The CHAIRMAN. Is your chief complaint against Mr. Hollyday at he failed to cooperate properly with you?

Mr. COLE. No, and, Mr. Chairman, let me not put it in the sense of complaint. Let me put it in the sense of attempting to present facts you based upon the facts upon which I based my recommendation.

This has to do with the need for strong administrative disciplinary administration on the part of the FHA. Then, I will proceed to develop it, and it is contained in this story with respect to this one person. May I say something further about that: I had no knowledge of the records in the FHA with respect to this person, except that I knew there were some there. There were some records and are some records that the FHA has with respect to this individual.

Senator MAYBANK. Is it a secret who this individual is?

Mr. COLE. It isn't a secret, sir, but may I say to you that he is entitled to a fair trial. I would prefer not to name him.

Senator MAYBANK. I wouldn't ask you to do it without a fair trial.

Mr. COLE. By the way, I have talked to him, I have advised him of the charges, I have told him that I would stand ready to listen to him any time, to give all the information which he has and he is entitled to do that.

Senator LEHMAN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. Mr. Cole, when you appeared before this committee on April 14, you referred to an order that was sent out by your predecessor, on March 20, 1952, calling for certain investigations and reports—Mr. Chairman, Senator Douglas has just called to my attention the fact that this testimony of Mr. Cole was in executive session, I will withdraw the question, of course, but may I ask you this: you were familiar with an order that was issued by your predecessor in March 1952 calling for certain investigations and reports to him regarding the results of those investigations.

Mr. COLE. That is correct.

Senator LEHMAN. Did you receive any reports from the various agencies that are components of the FHA?

Mr. COLE. Senator, the Home Loan Bank Board has its own investigating staff, having to do with their compliance matters. The Public Housing Administration uses the compliance staff of the Office of the Administrator entirely. They don't make reports to us. The Home Loan Bank Board has their own investigative staff which has to do with the soundness and the credit and the regulations of the savings and loan institutions. They do not make reports to us, except as they feel it is necessary to do so. Nor do we have any authority to direct them to do so.

Senator LEHMAN. Is it not a fact that under the law, you have general supervision?

Mr. COLE. That is correct.

Senator LEHMAN. And the duty of coordination. Is that not correct?

Mr. COLE. That is correct.

Senator LEHMAN. Is it also not a fact that when Mr. Foley sent out this memorandum to the heads of the various component agencies—and that memorandum is a matter of record, of course—he expected to receive reports from these agencies, otherwise he would not have sent out the memorandum?

Mr. COLE. That is correct.

Senator LEHMAN. And he outlined the method in which these investigations should be carried on.

Mr. COLE. That is correct.

Senator LEHMAN. Now, when you came in, with a knowledge of this memorandum of your predecessor, and the knowledge that it still remained in effect, I am anxious to find out what you did.

Mr. COLE. I continued to ask for the reports as I have outlined here. I received some reports. A few. I did not receive reports on these important things which I am now discussing with you.

If you will look at the direction which Mr. Foley, or at the order which Mr. Foley presented, it was to this effect, that those constituents which had their own compliance staff and their own investigative staffs, were requested to furnish information to the Administrator, if my memory serves me correctly. Neither Mr. Foley nor I, in my opinion, could direct those constituents to furnish the information to us.

Senator LEHMAN. But you did, as I recall from your testimony given a few minutes ago, you did take these matters up with Mr. Holliday?

Mr. COLE. Oh, yes. That was deemed to be part of the supervisory activity on the part of the Administrator, to determine what the facts are, to discuss what could be done, to advise with him, to reconcile differences of opinion, if possible, to talk about policy matters, to discuss legislation, to discuss with the Bureau of the Budget, the White House, and the President, and I am sure that I am correct. I am the Administrator of the Housing and Home Finance Administration, and I am the authority to direct the FHA to do anything.

Now, Mr. Holliday continues.

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Senator DOUGLAS. I would like to follow up this last point a bit and illustrate it with a personal experience of my own.

In February, I sent to Mr. Hollyday, a complaint about conditions in the Champaign-Urbana area, under title I, which had been referred to me by the local newspaper there, and mentioned some 80 instances of alleged fraud in connection with repairs. Mr. Hollyday acknowledged the letter and said he was carrying on an investigation. Some weeks later I wrote him and then he said he had referred the letter to the Department of Justice.

Is it not possible that in some of these cases he may have been dealing independently with the Department of Justice instead of funneling his requests through you? He is in the room, now, and can make a statement. Might there not be involved in this the institutional pride and to some degree jealousy which grows up between FHA and Housing and Home Finance?

Mr. COLE. The referral of a matter to the Department of Justice or the FBI does not meet the needs of administrative action. The needs of administrative action are what we are talking about, now, means to tighten up and follow through and to discipline administratively—not having to do necessarily with fraud. This is an administrative problem I am talking about.

I am talking about the need to have tough, hard people—and I mean tough people to administer a program which involves billions of dollars, to require that, upon a month's notice when there is a possibility of fraud, abuse, or negligence that the Administrator does the necessarily tough job of cleaning it up.

Senator DOUGLAS. Mr. Chairman, I think that at the conclusion of Mr. Cole's testimony it would be only fair to Mr. Hollyday if we were to give him the opportunity of taking the stand, at least, and make a statement as to whether or not he referred these cases to the Department of Justice, or whether he ignored them, so to speak. Mr. Cole said that he had no legal power to compel Mr. Hollyday to act and that it was simply administrative courtesy, and so forth.

I think this is important not only for the sake of the record, but for the sake of Mr. Hollyday's reputation.

Senator LEHMAN. May I ask another question?

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. I am under the impression, although I don't recall all the testimony, that as late as January you wrote a letter to Mr. Hollyday praising him for his work.

Mr. COLE. That is correct.

Senator LEHMAN. And I believe there was some connection with a report that was made. Is that a fact?

Mr. COLE. That is correct.

Senator, the FHA title I abuses were called to Mr. Hollyday's attention. The President's Advisory Committee discussed the fact that there were widespread abuses in title I. It was at that time becoming very well-known and there was a great concern about what was being done about it.

The FHA established 2 regulations, 1 in July of 1953, and 1 in October of 1953. The October regulation became effective, if my memory serves me correctly, in December of 1953. Those regulations are sound and constructive and, as I said, held a straightforward approach to the administrative problem of establishing a regulation.

What this testimony brings out, however, is that you may establish a regulation but it takes hard work, difficult work, constant application to the job, to see that these regulations are policed, to see to it that your people are following through, to determine whether or not they have been abused, to see to it whether or not, after you determine whether or not they have been abused, that disciplinary action is taken.

Now, at the time that I wrote the letter, and now, I believed that those regulations were sound and constructive, and will be very effective. The point I am making is one of administrative laxity after the regulations and before the regulations were adopted. That is the point I am making.

Senator LEHMAN. Mr. Cole, might I say this: Doesn't it seem strange that when you had communicated with Mr. Hollyday shortly after you assumed office in April 1953, and were aware of these complaints that had come in with regard to abuses under title I, one of which is carried in this article by the Consumer Reports, and you did not get action, administrative action, from Mr. Hollyday, and that he did not make reports to you? Does it not seem strange that you should have written him a letter of praise for carrying out work in which, according to my understanding of your testimony, you felt he was derelict?

Mr. COLE. You see, he had not reported to me with respect to the investigations which they were undertaking at that time. I did not have the report at that time. I had the report later.

Now, these investigations are difficult to make, in title I. They involve small-home owners scattered over an area, they involve hundreds of items, they involve lenders, they involve dealers, and they are difficult to take. I was aware of the fact that Mr. Hollyday did not have sufficient investigators to do a thorough and complete job. I know that. He knows it, and everyone knows that. At that time he didn't have sufficient investigators. I knew that it would take time. And may I say to you that in my opinion it was not the fault of the Congress that he did not have sufficient investigators. Under his appropriation bill, I am informed—under his appropriation, I am informed—he has ample authority to establish as many investigators as necessary if it is a critical emergency proposition. I think there is no question about that. But I want to make it very clear that he did not have sufficient investigators at this time. He relied upon that fact that he didn't. I knew that it would take considerable time. It took the Department of Justice months within which to—with all of their authority, with all of their machinery, it took quite a bit of time for them finally to report. The point being that when we were talking about regulations, yes. Sound regulations, constructive regulations. When the report finally came back upon the investigations which which were made, that is the

Now, may I proceed?

Senator FEAR. Who is

Mr. COLE. Mr. Hollyday

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He, and the disciplinary actions which I am speaking about

ly and October!

Senator DOUGLAS. Is it not true that in December, when you were Chairman of the President's Advisory Committee, the committee with respect to title I, said that, "It is the judgment of your subcommittee that these new regulations will correct the abuses, and that no further requirements should be imposed"?

Mr. COLE. I think that is contained in the report, sir.

Senator DOUGLAS. Now, apparently you thought that so far as the issuing of regulations is concerned, that Mr. Hollyday had been doing a good job.

Mr. COLE. That is correct; and that is what I attempted to say to Senator Lehman.

Senator DOUGLAS. Did you attempt to find out whether he had referred cases to the FBI, whether he moved independently?

Mr. COLE. Yes; he had referred cases to the FBI.

Senator DOUGLAS. Did he refer the California cases to the FBI?

Mr. COLE. That I do not know; but may I say to you, Senator, the FBI has no jurisdiction over his administrative problems of investigating it administratively to determine what sanctions, what disciplinary actions should be taken against a dealer or a lender.

Senator DOUGLAS. You have said you have no administrative authority.

Mr. COLE. That is right; Mr. Hollyday has the administrative authority, and he only. He only. No one else.

Senator DOUGLAS. Apparently what you are saying is that he should have reported to you though you had no power to compel it?

Mr. COLE. No.

Senator DOUGLAS. I believe you should have the authority.

Mr. COLE. I think so, too.

Senator DOUGLAS. I am inclined to believe that you should.

Mr. COLE. Yes.

Senator DOUGLAS. But so far as the past is concerned, I don't see how you can legally blame him.

Mr. COLE. The blame, if there is any blame—again, I want to give you the facts. The point is, not that he failed to report. The point is what was done by FHA, on the few cases that they could and did investigate. I am pointing out to you that those cases which they did—irrespective of how many people they had, irrespective of anything else—on the few cases they did investigate, what did they do? They reported back—

Senator DOUGLAS. Did they put the firms on the blacklist?

Mr. COLE. They put many of the firms on the blacklist.

Senator DOUGLAS. That is, did they put the firms that were guilty in California on the blacklist?

Mr. COLE. They put some of them on the blacklist; yes, sir.

Senator DOUGLAS. Then, they took action in that case.

Mr. COLE. Yes, sir.

Senator DOUGLAS. Did they put any of the lending firms on the blacklist?

Mr. COLE. Yes, they did.

Senator DOUGLAS. Were there any FHA officials involved?

Mr. COLE. In title I?

Senator DOUGLAS. Yes.

Mr. COLE. By "involved" do you mean in a criminal sense, sir?

Senator DOUGLAS. Or grossly negligent.

Mr. COLE. I think some FHA officials were grossly negligent.

Senator DOUGLAS. Was any action taken in connection with them?

Mr. COLE. No.

Senator DOUGLAS. Then, your chief complaint seems to be that action was not taken on some FHA officials.

Mr. COLE. No—I am sorry.

Senator DOUGLAS. Wasn't that your position?

Mr. COLE. The chief complaint with respect to title I was that there was no proper investigation of those cases which they attempted to investigate, and secondly, no disciplinary action on those on those cases.

Senator DOUGLAS. But you said that some of them at least were put on the blacklist.

Mr. COLE. Surely. Some of them.

Senator DOUGLAS. And some of them were referred to the FBI.

Mr. COLE. Surely.

Senator DOUGLAS. Now, what else could they have done? That is what I am interested in.

Mr. COLE. Senator, what I have said is what they did not do. You are using some cases, and I am using other cases. It is the other cases. The X company, for a particular example. The X company, where a special request was made that the X company had violated—broadly—had violated in many instances—many of the FHA regulations. An investigation was made of the X company, sir, and a report was made of the X company, and that neither the investigation nor the report nor the disciplinary action was proper.

Senator MAYBANK. Who is the X company? Is that just a lot of companies?

Mr. COLE. I used the letter "X" to identify one company, and if you care to I will tell you which one it is.

Senator MAYBANK. Is there any objection?

Mr. COLE. The only objection—the only reason I am being cautious is that it is being investigated.

Senator MAYBANK. I don't want to do anything wrong.

Mr. COLE. I will furnish it to you off the record.

The CHAIRMAN. I think it better, in all fairness to everybody, because we certainly don't want to accuse anybody, any innocent person, until we have the complete information and are satisfied that there has been collusion and irregularities and violations of the law—reasonable certainty of it—I don't think it ought to be publicly made a matter of record.

Mr. COLE. May I return, then, to this personnel matter?

The CHAIRMAN. You proceed in your own way.

Mr. COLE. You were inquiring about the personnel matter.

This has to do with the individual about whom we were discussing, whose file disclosed certain matters of serious irregularity, about his position in an important part of the agency.

In July again, additional information was presented with respect to his his situation. Serious irregularities were involved.

Senator MAYBANK. Could you say what kind of irregularities?

Mr. COLE. Yes, I can say. The original ones were gambling with large amounts.

Senator MAYBANK. But you said additional.

Mr. COLE. The "additional" has to do with the demanding of money from people for the purpose of securing commitments to FHA. Mr. Hollyday has said that he believes that the evidence is sufficient—or at least he has the belief that it is true.

Now, this person worked for the FHA from the very beginning of Mr. Hollyday's entrance into FHA, and resigned, receiving a laudatory letter from Mr. Hollyday about his work. At the time he resigned, he was under investigation by the FBI and that was well known to Mr. Hollyday. It is my judgment that in an agency of this sort where you are dealing with millions of dollars, again, that an individual under investigation with such serious charges of irregularities placed against him should not be permitted to resign with a laudatory statement on the part of the head of the agency. I don't believe that is proper administrative action. I didn't believe it then and I don't believe it now.

That has to do with this particular individual.

May I say parenthetically, too, that this individual had important decisions to make with respect to section 608, which we are discussing now, and whether or not there are serious collusions or gross negligence in connection with that program.

Now, in the section 608 program, I want to refer to that for the committee's benefit.

Last summer, August 6, 1953, I had a discussion with an attorney from the Internal Revenue Service regarding the section 608 program. He came to my office and told me that the Internal Revenue Service prepared cases to file suits against the builders or contractors who were involved in the construction business of the section 608 projects and who had received windfalls. He told me that it was in his judgment that they believed they had developed a sufficient pattern in connection with the section 608 cases, that in many cases a builder when he began anything about constructing or planning a section 608 project, would know in advance that he would be able to obtain a windfall, or a mortgaging-out, and, therefore, in their opinion, it was possible that he should have paid taxes on income rather than capital gain.

The CHAIRMAN. Who said this?

Mr. COLE. This is an attorney from the Internal Revenue Service. I think his name was Holmes; I am not sure.

Senator MAYBANK. Would you repeat that?

Mr. COLE. Sir?

The CHAIRMAN. Senator Maybank would like to have you repeat that.

Mr. COLE. What the attorney said?

Mr. MCMURRAY. The attorney in the Internal Revenue Service said what?

Mr. COLE. That he thought it was possible that the builder of a section 608 project, or that some builders of the section 608 projects could determine in advance that they would receive a windfall.

Senator MAYBANK. You say some. Why couldn't they all do that?

Mr. COLE. I think Senator Douglas has put his finger on that. Some are more ingenious than others. The ingenious ones saw the possibility of a pattern and realized that the mere construction of it, it was handled properly, the mere construction of the project or of

the apartments would thus result in a windfall to them. That is the case which they had.

Senator MAYBANK. Now, let me suggest this: It is my information that in some of the projects they are building, say 1,000 units as an example—there may be 200 corporations formed as a means of taking advantage of the taxes on small corporations of less than \$25,000 capitalization. Do you have any knowledge of 200 corporations being formed in some instances?

Mr. COLE. No; I don't.

Senator MAYBANK. Would you find out for me?

Mr. COLE. We will look into it.

(The information requested follows:)

BUILDERS OPERATING UNDER SEVERAL CORPORATIONS

Under the regulations which have hitherto been in effect in the FHA it has been the practice of some operative builders to conduct their building activities under several different building corporations. This practice extends from the 1 or 2 corporations of some builders to builders who form new corporations for each of their many building programs.

The extent of the expansion of these corporate structures depends a great deal on the various State laws governing the formation and dissolution of corporations.

Underwriting requirements have not attempted to dictate the type of proprietor or corporate structure, but each entity acting as a mortgagor in an insured mortgage loan transaction must meet the requirements of acceptability in the same manner as any other borrower.

In determining the financial responsibility of a builder operating under a number of corporations the mortgage credit examiners are instructed to determine the net financial responsibility of the builder by considering the various liabilities of a corporation and by eliminating all interlocking corporate accounts in analyzing the builder's financial condition.

Whenever it is determined that a builder is using his credit in a manner contrary to FHA credit policies no additional firm commitments involving further building operations by him or by companies he controls are recommended.

Mr. COLE. The attorney advised me that there was a total volume of section 608 windfalls of many hundreds of millions of dollars and that it involved hundreds of corporations. When he told me the amount of the mortgaging-out feature, I, of course, was horrified that this could have occurred. I knew that there were some possibilities of mortgaging out, we had all heard of that, but this was the first time I had ever heard—

The CHAIRMAN. Who told you that?

Mr. COLE. This attorney.

This was the first time that I have had placed before me—

The CHAIRMAN. An attorney from the Internal Revenue Service!

Mr. COLE. Yes. This was the first time I ever had it placed before me that this was a pattern and a volume, so that those who entered into it knew it would occur.

He requested that the FHA provide him information necessary to the bringing forward of their case.

I called Mr. Hollyday by telephone and told him the man would come over to visit with him, and ask him for assistance. Mr. Hollyday gave him the assistance and they secured the information necessary from FHA to bring the one case or other cases which they may need. Very shortly thereafter I asked Mr. Hollyday to come to my office and at that time we discussed the section 608 cases. I said to him, "It is my opinion that some day this matter will"—I put it, as I do—

slow higher than a kite. One of these days, when the full facts are developed, this will be a great scandal. You are not involved in it, I am not involved in it, it happened sometime ago. Some section 608 projects, however, are still being constructed"—and they were then and are now—

The CHAIRMAN. About what was the date of this meeting?

Mr. COLE. This was right after August 6.

The CHAIRMAN. In August 1953.

Mr. COLE. That is correct.

I said, "I think you should immediately investigate this situation thoroughly and completely in order that you may determine what has happened not only with respect to the people now employed in your agency but also with respect to the program, itself, and the people who have had the facilities of the agency, but also what to do with future programs of rental housing."

He agreed and said he thought that should be done and must be done.

I discussed it with him a number of times since that date and asked him whether or not investigations were going forward.

It was my impression that they did make some investigation—I will put it this way. It is my impression that he advised me they were making some investigation. It is my impression that he told me investigators went to New York. This may or may not be correct, because it is rather vague.

Senator MAYBANK. Mr. Chairman. At this point might I ask a question?

The CHAIRMAN. Senator Maybank.

Senator MAYBANK. The list was sent down here to the chairman on the section 608 matter, as you know.

Mr. COLE. Yes.

Senator MAYBANK. And it is, of course, secret because it concerns income taxes.

Does the FHA have a list that does not concern taxes, or has the FHA anything that this committee might have?

Mr. COLE. Yes, Senator, it is my judgment that they do.

Senator MAYBANK. Some of the Members on this side of the aisle—as I told the chairman this morning—are very anxious to get the list or their own protection because a lot of people are being charged with things, and unjustly so.

Mr. COLE. I think what can be done, Senator, is to reconcile the records of the Internal Revenue Service with the record in the FHA.

Senator MAYBANK. We couldn't talk about the list that we brought up here, of course.

The CHAIRMAN. It is a violation of the law to disclose any information in a man's income-tax return, unless it is done by Executive order of the President, and then for a specific purpose, and only to certain agencies of Government, among them, of course, being congressional committees and other agencies of Government that need the information for the proper administration of their agencies. We have received the names of 1,149 on that basis and we will have to follow the law.

Senator Douglass

Senator DOUGLASS. I don't think the request that I am now going to make of Mr. Cole involves the point to which the chairman has just

referred but I wonder if Mr. Cole would furnish the committee with a list of all blacklisted dealers, both contractors and lending agencies under title I loans.

Mr. COLE. Yes.

Senator DOUGLAS. Would you make available to the committee a list of all complaints received under title I operations?

Mr. COLE. That would be a terrific job but we will do the best we can, sir. That would be a terrific job.

The CHAIRMAN. Let us make sure we know what we are asking for here. Are you talking about complaints in the headquarters here in Washington, as well as all of the field agencies and the Internal Revenue Service and the Attorney General?

Senator DOUGLAS. Let's go back to the beginning. My first request was that Mr. Cole furnish to the committee a list of all blacklisted dealers.

The CHAIRMAN. That ought to be very simple.

Senator DOUGLAS. Contractors and finance agencies.

Senator BENNETT. Will the Senator yield?

Senator DOUGLAS. I yield.

Senator BENNETT. Would it be proper to ask that that list show the date upon which they were placed on the blacklist?

Mr. COLE. I think that could be done. (See appendix, p. 1905.)

Senator DOUGLAS. Now, the second request is to make available to the committee complaints received under title I. I am willing to qualify that. Let us say complaints received by the national office.

Mr. COLE. Again, Senator, we will do the best we can and advise you of the results of it. It is very difficult and it may involve a tremendous amount of operation, but we will take it up for the Senator.

Senator DOUGLAS. Such a list would make it possible for the committee to make an independent investigation of this matter.

Mr. COLE. Yes.

(The information requested follows:)

COMPLAINTS RECEIVED UNDER TITLE I

A check has been made of the correspondence files of the Title I Operations Section which discloses that during the period January 1, 1953, through March 31, 1954, 309 complaints of title I borrowers were received by the Washington headquarters of the Federal Housing Administration. Of this total 111 were received during the first 6 months of 1953, 141 were received during the last 6 months of 1953, and 57 were received during the first 3 months of 1954.

It should be noted that this total does not include complaints which were submitted to FHA field offices or to other agencies of the Federal Government and subsequently referred to FHA Washington headquarters. In the latter category are approximately 100 reports received from the Federal Bureau of Investigation during the same period.

Mr. COLE. Proceeding with the section 608 situation I have no recollection of the number of times that I discussed the necessary investigation of the section 608 program. I will say, however, for the record, it is more than once. My judgment is that it was 4, 5, or 6 times. Each time I pointed out that there must be something done about it, it must be investigated. The first time, then, we were able to obtain information about section 608 came to me when the President finally gave me—when the President gave me authority to take over records and instructed agencies to provide me with information to proceed.

The fact which I am presenting to the committee is this, that the administrator—that is the Commissioner—was requested to make an investigation of a situation which involved possible collusion, possible gross negligence on the part of FHA employees, where he had definite information that one of the employees, one of the top employees in charge of this program had been charged with serious irregularities, violations of criminal law—serious ones—and that man was permitted to resign with a laudatory letter.

Now, Mr. Chairman, I have a responsibility and it isn't a happy one. And I have a duty, and that is that administratively, this Government must carry out its responsibilities. They may be difficult, they may be tough, they may be hard decisions to make. This Agency which we have and over which I have general supervision and coordination is, in my opinion, more than any other agency in the Government, subject to pressures. We grant money, we give money, we loan money—millions of dollars every year—in all sorts of circumstances under all sorts of conditions.

We decide whether X corporation or Y corporation is permitted to make a commitment for the building of homes and apartment buildings without any investment of money on their part. The fidelity, integrity of this operation, Mr. Chairman, is more important than or anybody else.

The CHAIRMAN. Mr. Cole, Mr. Hollyday said on yesterday that in his opinion—I believe I am quoting him correctly and if not I want to be corrected—that the law, the proposed law and existing law as it applies to title I, need not be amended, that the problem was one of administration and not the wording of the law.

Is that your opinion, too, that it is unnecessary to make any changes in title I?

Mr. COLE. I would agree with that at the present time; yes, sir.

The CHAIRMAN. You think it is one purely of administration.

Mr. COLE. Yes; and to be absolutely fair, Mr. Chairman, and Senator Douglas, this program, with thousands of loans being made all over the country—thousands of them, every year, every month—the inherent in the program is the idea that there will be violations. I don't ever overlook that. Inherent in the program is that there will always be violations and abuses. The point that I am making, sir, is, that when abuses have been made and when complaints have been reported, irrespective of how many investigations are made, that as many investigations as are made are completed and that disciplinary action is taken in those cases.

The CHAIRMAN. In your opinion it is not necessary to make any changes in the present law as applied to title I.

Mr. COLE. That would be my opinion.

The CHAIRMAN. That is your best judgment?

Mr. COLE. Yes.

The CHAIRMAN. And your best judgment is that there are abuses which have been taking place on the part of the administrators.

Mr. COLE. I will not go that far. If there have been abuses somewhere without gross negligence or any kind of negligence.

The CHAIRMAN. Primarily, then, it is inherent in the law, itself.

Mr. COLE. Always when you have a great program involving small amounts, yes, sir; it is inherent to a certain extent.

The CHAIRMAN. There is something in the law that permits blanket guaranties and permits the backer and the dealer to proceed without any, or with very little, supervision—is that your position?

Mr. COLE. My position is, Senator, that a program of such volume will always have some abuses.

The CHAIRMAN. Is Mr. Mason, the new FHA Director, here?

Mr. COLE. He is not here.

The CHAIRMAN. For example, it was brought out in testimony on yesterday that you have—the FHA; not you, the FHA—have approved for the purpose of guaranteeing rehabilitation loans between 500 and 600 individual items. Some of them were named, such as swimming pools and landscaping and barbecue pits and fire alarms and burglar alarms and so forth.

Is it your best judgment that we ought to continue, or the Federal Government ought to continue to guarantee that sort of thing?

Mr. COLE. The answer is "No." If you take into consideration all the matters you have discussed, the answer is "No." Again, it is a matter of administration. It would be very difficult, Mr. Chairman, for the committee to write legislation and say "XYZ, 1, 2, 3, 4"—

The CHAIRMAN. Then you think we might well limit the loans to what we normally know to be repairs in a home, or improvements in a home, such as roofs, paintings, siding, flooring—not what we think of as frills.

Mr. COLE. Senator, I think you could do that but it would not attack the problem I am talking about today. This problem I am talking about today is administration.

The CHAIRMAN. The homeowner can, if he cares to, go down and borrow up to \$2,500 on his own note, secure the money, and then proceed to let his own contracts. The lending agency never knows to whom he let the contract, with whom he spent the money; is that a correct statement?

Mr. COLE. I think it can be done.

The CHAIRMAN. If you do not know of your own accord, do you have someone with you who does know?

Mr. COLE. The answer is "Yes."

The CHAIRMAN. The answer is "Yes."

Then you have two kinds of loans. You have that loan in which the individual homeowner can go down to the bank, borrow up to \$2,500 on his own note, spend the money any way he sees fit, with any contractor that he might see fit to spend it with. Then, there is this other type loan where the dealer goes to the bank, makes the loan for the homeowner, and the bank pays the dealer direct. Is that correct?

Mr. COLE. That is correct.

The CHAIRMAN. Now, are they the only two types of loans?

Mr. COLE. Yes, sir.

The CHAIRMAN. Do you think we might well eliminate the homeowner going down and borrowing the money directly, himself, or put it on a basis where whoever sells him the goods or sells him the services, would remain on the note until the note was paid in full, just as we operate in private industry?

Mr. COLE. I think that has some value, Mr. Chairman.

The CHAIRMAN. Now, will you do this, please—we are not certain of it. We don't want to make any more mistakes if we can keep away from it in this legislation.

Will you do this, will you get your staff and the FHA staff together and really study that problem that I have just given you? Study the idea of tightening the law, to tighten it up in such a way that the dealers themselves and the homeowner himself, and the bank itself, accept the responsibility as though it were their own money and their own guaranties, and as though it were private business, and they were operating it as such? Will you do that, please?

Mr. COLE. Yes; we will.

Senator FREAR. In the answer you just gave to the chairman's question about an individual homeowner going down to a bank and securing a loan up to \$2,500 for remodeling or repairing a home, does that not have to be approved by an appraiser of the FHA?

Mr. COLE. On title I?

Senator FREAR. On title I.

Mr. COLE. No.

Senator FREAR. So FHA knows nothing about it, although they do insure 10 percent of the losses?

Mr. COLE. Senator, the title I operation is based upon the idea of integrity of the dealer and the lender. The regulations are set up in such a way as to protect that integrity as much as possible. By that, I mean the lender is approved by FHA, and then the regulations require the lender to approve the dealer, so the lender is dealing with a man or a company with whom he has had a good relationship, a satisfactory business, that he knows that when they continued their business, the work will be well done, not overpriced, and so on.

Senator FREAR. So actually there is no certification or approval by an FHA representative in that case?

Mr. COLE. No; no inspection.

Senator FREAR. The original question that I had was: Would you say that in the case of approval for insurance purposes by FHA, that we could correct the law where it now says, "By the appraiser," or in this case that you have just mentioned, by the lender, to have them certify as to the actual cost, and if that is lower than the lending institution agrees to lend, or lower than the appraisal, that that would be the maximum that could be loaned, of which 10 percent would be guaranteed by FHA?

Mr. COLE. Senator, the advantage or worthwhileness of the title I program is the fact that it is a small loan, quickly made or easily made. It is my judgment, based upon your casual thought with respect to our statement, that I am afraid it may be a little too involved.

We have some ideas about tightening the regulations. I believe in the program. I think it is a good program. I think it has provided, particularly people of modest incomes, a method by which they can borrow money. I do not want to destroy the program. I want to make the program work; I want to make it work effectively and well. I would look at that one very carefully, sir.

Senator FREAR. Then your answer would be "No"?

Mr. COLE. Yes.

The CHAIRMAN. Mr. Cole, knowing of all the irregularities in title I, why did the Commission appointed by the President and yourself and all others, including the industry, ask us to increase the limit from \$2,500 to \$3,000, and also extend the terms, in conjunction with

the fact that the average loan has only been, I think it was testified yesterday, less than \$600. What was the purpose of it?

Mr. COLE. As I said before, Senator, title I is a good program. I think it is a good one, and I think it will work. I want it to work to help people improve and remodel their houses.

At the time we made the recommendation I did not know what I considered to be extreme laxity on the part of the FHA existed in certain cases. It can be done. Certain regulations can be put into effect. A careful, vigorous enforcement of cases which arise, either through fraud or negligence, can be carried out.

I wouldn't recommend that the program be destroyed. I think it is a good program.

The CHAIRMAN. Well, I don't know of anybody having the idea at the moment of destroying it. I do think we all have on this committee an idea that we are going to tighten it up, and we are going to make certain that these abuses cannot happen in the future. The thing we are interested in is protecting the people, and it seems to me the people have been carrying the brunt of this, not the dealers and not the bankers. It has been the people.

Now, Senator Bennett.

Senator BENNETT. I should like to question Mr. Cole directly on the matter that has just been raised, and in order to develop it accurately, let's go back to the beginning.

Mr. Cole, what is the purpose of the FHA guaranty in title I?

Mr. COLE. What is the purpose of the FHA guaranty?

Senator BENNETT. Yes.

Mr. COLE. To make it easier for people to obtain remodeling loans—loans for remodeling, and to make the loans more easy to obtain.

Senator BENNETT. Its purpose is to provide easier credit for home remodeling and repair?

Mr. COLE. That is correct.

Senator BENNETT. What is the extent of the guaranty? To whom does the guaranty run?

Mr. COLE. The guaranty runs to the lender. The insurance is to the lender, and his portfolio of title I loans is insured up to 10 percent.

Senator BENNETT. Is there anything in the title I program upon which the property owner can rely to make sure that the repairs or improvements made on his property are carried out in accordance with some prearranged program, or some inspection service. To say it in another way, and more simply, does the Federal Government, under the title I program, have any responsibility to the property owner?

Mr. COLE. Senator, I think you have hit upon one of the important things in connection with this program. Some people believe that the Federal Government has no responsibility to the consumer or the homeowner. In my opinion, that is the belief of many of the people in the FHA, and it is my opinion that the basic fault is in the laxness in the administrative policies in title I.

There is no responsibility on the part of the Government. This is an insurance the lender, but has nothing to do with the company. I reject that.

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it has a tool or facility available for
has a definite responsibility
provide a means of swim-

dling people—modest-income people, or anybody. I think we should look at it to determine what the result of that program is. Shall we just set up a program and forget it and say, "Well, it is none of our business if people are swindled; we will just brush them under the table"? No, I don't think that is right.

Senator BENNETT. If a property owner figures he has been swindled in a title I program, can he come to the FHA and get his money back?

Mr. COLE. No; not to the FHA.

Senator BENNETT. Can he come to the Federal Government and get his money back?

Mr. COLE. No.

Senator BENNETT. I agree with you that the Government has the responsibility to the property owner, but since we are about to write new legislation, I think it is vital that we should know what the area of that responsibility is, and what its limits are.

We have heard today, and undoubtedly as we continue our investigations, we will get into specific cases as to the extent that this work has been done and that the loans have been obtained. Does the property owner have any redress on the Federal Government to help him out of the situation in which he found himself?

Mr. COLE. My offhand opinion is that he does not.

Senator BENNETT. That is my opinion. I have tried to discover whether the matter has ever been taken to court, and the only information I have been able to get is that in the past, where attempts have been made to enjoin the Federal Government with a suit on the contractor, that has been thrown out, so that there is no ultimate responsibility.

Now, how best can the Federal Government protect the property owner? I think you have indicated in your testimony earlier that we can protect the property owner by making sure that the lender is responsible.

Mr. COLE. That the lender knows his dealer, that he receives from the dealer proper statements that the work has been done and that it has been done correctly, that there will not be this business of auction-off jobs to gangs of dynamiters, but that a lender and dealer be so restricted as to maintain this fiduciary relationship between them.

Senator BENNETT. Well, I think that is very important and the next step, of course, is that the FHA should be concerned with who the dealers are, and as to how responsible they are.

You have indicated that you have already begun, or that maybe you you had for a long time, a blacklist, on which the names of irresponsible dealers have been placed.

I think much of the difficulty that has crept in, much of the fraud, perhaps, that we are talking about, grows out of this fact, that while the individual property owner has no legal recourse against the Federal Government, there has grown up in the country the feeling that because an FHA loan is made on this particular property, that somehow the individual gets a mythical protection. That he would be better off, with an FHA loan, than he would if he went to the bank and made his own arrangements.

Now, doesn't the—well, I don't know quite how to phrase it, but isn't the existence of that mythical feeling of protection the condition which makes possible this kind of dynamiting?

Mr. COLE. It is a factor. I think consumer education would be very helpful in that regard. There are many people who feel exactly as you have said. When they receive an FHA loan, that they are insured rather than the lender. It would be impossible for the Federal Government to hold the hand of every person who deals with some lender or some builder or some dealer. That is not what I am talking about.

I am talking about this thing, that when complaints are made and when frauds are discernible, and you are able to determine what has happened, that we then follow through with such of our machinery as we have to determine what can be done about it.

Senator BENNETT. I am wondering if the Agency, by regulation, or if this committee, by law, doesn't have the responsibility of making it perfectly clear to the man who is going to sign that note that the fact it is an FHA note does not give him any Federal protection. I am wondering how many of these fraudulent deals would have been made if the salesman had not been able to infer to the property owner, "Well, now, if you would just do it this way with me, because this is an FHA loan, you can be somehow sure that the job will be better, and that the job will be protected, and you better deal with me, an outsider, who talks FHA to you, than the carpenter you know about down the street, who probably isn't as alert to the FHA possibilities."

Mr. COLE. I am sure there is a lot of that in it, Senator; there is a great factor there.

Senator BENNETT. I think if we are going to eliminate the possibilities of fraud, we have to do something to make sure that the customer, the borrower, the actual man who signs the note, realizes the limitations of the FHA insurance and is put definitely on notice that the insurance runs to the lender and it is not a protection or a guaranty to him of the workmanship.

We have been talking about title I, today, mostly. Doesn't the same situation exist in the buildings that are built under title II?

Mr. COLE. I think so.

Senator BENNETT. As a Senator, I have had some complaints which would indicate that either through the negligence of the builders or maybe implicit in their silence, there has developed a feeling that a man who has a home built under an FHA-guaranteed or insured mortgage, is somehow protected by the Federal Government and that the Federal Government will, if necessary, make sure that his home is exactly as he expected it to be.

Now, does the FHA have that responsibility?

Mr. COLE. The FHA has the responsibility to maintain the integrity of its inspection service, and I believe that where the inspection service or appraisal service falls down, that is an administrative problem with the FHA to tighten it up, to make it effective, to make it operative.

It is, therefore, my judgment that the thing which should be done in these cases is for the FHA, actively, to appreciate the needs to maintain the integrity of

Now, that part is not agree with the Senator that the home buyer should not be guaranteeing his Federal Government

Senator BENNETT. T. ? inspection service for me there is no i

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opinion as to whether or not it should be under regulation, if it is worthy, or whether or not it is something we should consider putting into the law itself.

Mr. COLE. Yes, sir.

(Mr. Cole's comments on the article follow:)

COMMENTS ON U. S. NEWS & WORLD REPORT ARTICLE OF APRIL 23, 1954, SUGGESTING
MEANS OF PROTECTING CONSUMERS USING FHA INSURED REPAIR LOANS

An article in the April 23, 1954, issue of U. S. News & World Report entitled "Home Repairs" suggests that a homeowner take the following four precautions to protect himself against home-repair sales rackets when obtaining an FHA-insured home loan:

- (1) Know your contractor.
- (2) Seek competent advice on the type of contract to sign.
- (3) Get at least three bids on every job.
- (4) Don't sign the FHA completion certificate until the job is finished to your satisfaction.

These are excellent suggestions. (The present title I regulations and procedures already require the consumer to certify on the completion certificate that the job has been finished to his satisfaction. Also, the regulations make suggestions on the elements which should go into a sales contract.) One important way of improving the title I lending operation is to increase the consumer's carefulness and skill in purchasing home improvements. Many of the abuses of the past would have been prevented if the consumer had been truly vigilant in protecting his own interests. In the future we intend to take vigorous steps to educate the homeowners using FHA title I loans and to encourage them to exercise caution and care in making home-improvement purchases.

However, consumer education is not the only thing needed. It is also necessary to prevent lenders and dealers from exploiting consumers. Changes in the FHA title I regulations and procedures will also be made to accomplish this objective.

Senator PAYNE. The provisions of the amendment that Senator Douglas and Senator Bennett, I understand, proposed, and were successful in securing, was an amendment to the Defense Housing Act, was it?

Senator BENNETT. Of 1951.

Senator PAYNE. If that safeguard, as contained in that amendment, had been in effect on section 608, wouldn't it have eliminated to a very large degree the practices that did take effect under that section.

Mr. COLE. Yes, I think so, Senator.

Senator PAYNE. You mentioned a minute ago there was still some construction going on under section 608.

Mr. COLE. Very minor, or very few.

Senator PAYNE. It might be minor, but there is still some going on?

Mr. COLE. That is correct.

Senator PAYNE. I ask whether or not it would be appropriate for the same restrictions to be applied to that which is being carried on, or is it possible for it to be applied to that which is going on presently under section 608, so as to further safeguard and not have any chance of loopholes coming in there, or at least guarding them as far as possible, rather than to just let them go as they are?

Mr. COLE. We must look at those under construction, and we plan to. Let me say, however, that there are problems of binding contracts and binding commitments which must be examined, too, I am

not sure that it could be put into contracts now in existence. I am doubtful that it could be.

Senator PAYNE. Am I correct in the information that I have, that at least some of the mortgaging groups strenuously opposed that amendment that was proposed by Senators Douglas and Bennett at the time?

Senator BENNETT. May I answer that?

Mr. COLE. Yes.

Senator BENNETT. I think the building industry was also opposed to the amendment because it represented further limitation on their freedom of action.

Senator PAYNE. That is all I have, Mr. Chairman.

The CHAIRMAN. Senator Bennett.

Senator BENNETT. I was trying to concentrate on the questions I asked, and missed this one, which is collateral. First, what would happen to title I programs if FHA undertook to protect the buyer?

Mr. COLE. It would destroy it, completely.

Senator BENNETT. I don't think there is any question about that.

My second question goes to the one—

The CHAIRMAN. Wait a minute. You say if the Federal Government decided to protect the buyer, it would destroy the program?

Mr. COLE. I think, Senator, you are right in calling my attention to that. That is a pretty broad statement.

The CHAIRMAN. I would say if that is true, that we ought to repeal the law before 4 o'clock today.

Mr. COLE. I will back up on the statement. I think that was a pretty broad statement on my part.

The CHAIRMAN. Explain what you meant.

Mr. COLE. I had in mind what the Senator implied by his statement, that in each title I loan, that the Federal Government would make such steps as to protect—I mean, such steps as to inspect—on the part of the Federal Government, to have inspectors go out to inspect those loans, to report back to the FHA that they had inspected them, and the basis of the inspection, that such loan was good, that that would destroy the program.

The CHAIRMAN. That would take an awful lot of employees, but you could write something in the law.

For instance, in the Securities and Exchange Commission, they work on every prospectus.

While they do not guarantee the securities, they guarantee the facts in the prospectus.

We can do something like that, can't we?

Mr. COLE. I think so.

The CHAIRMAN. I think we should.

Senator BENNETT. Since I asked the question, I want to take equal responsibility for what was obviously generalized, and therefore, brought about an unrealistic answer. My question should have been, should the Federal Government take full responsibility to assure the property owner that he gets what he thinks he is getting when he gets a contract financed by an FHA note?

Mr. COLE. I think that involves the inspection of every job, and because I don't believe that is possible, and because I believe this is a small-loan program based upon the integrity of the dealer and the lender, I do not think it can be done.

The CHAIRMAN. We can certainly reverse it and do it in a negative way, and so inform the homeowner that the Federal Government is not responsible, can't we?

Mr. COLE. Yes.

The CHAIRMAN. My best judgment is that they have been able to make millions and millions of dollars worth of sales at high prices, by virtue of the fact that the buyer thought that the—the homeowner and the buyer thought that the Federal Government was behind it, and that anybody representing the Federal Government was honest and that they could depend upon them. You certainly can approach it from the negative standpoint, which is really what the Securities and Exchange Commission does. They approach it from the negative standpoint rather than the positive.

Senator BENNETT. That was the purpose of my question.

The CHAIRMAN. We must protect the people. That is the purpose of government.

Mr. COLE. Of course, Senator. I want no connotations to the contrary.

The CHAIRMAN. What you meant was, if you had to inspect every loan, that it would be just unworkable and impractical.

Mr. COLE. Yes.

The CHAIRMAN. It would require an army of 25,000 or 50,000 people to do it.

Mr. COLE. Yes.

Senator FREAR. I suppose, Mr. Cole, what we should require is assertion by the borrower that they have read the fine print of the contract.

Mr. Cole, to your knowledge, how long has FHA known of these abuses and malpractices that we have been talking about under title I?

Mr. COLE. Abuses under title I, in my opinion, have stretched back a number of years. A number of years.

Senator FREAR. You were aware of it when you became the Housing and Home Finance Agency Administrator?

Mr. COLE. Senator the first time I became aware of the volume, the pattern, was when the FBI and the Department of Justice advised me, and I received this letter from a Washington attorney advising me. I think that was the first time. Perhaps our own regional representative sent us a memo.

Senator FREAR. That was June 24, 1953, if I understand correctly.

Mr. COLE. Approximately.

Senator FREAR. Did you familiarize yourself with the rules and regulations of the FHA, when you became the Administrator of HHFA?

Mr. COLE. Generally speaking. If you asked me if I knew all the rules and regulations, even now of the FHA, the answer would be "No."

Senator FREAR. You have a ready reference, I am sure, but I mean, generally speaking, Mr. Cole.

Did you familiarize yourself, or did you read the testimony that had been given by your predecessor before the Senate Banking and Currency Committee, and if so, did you find in that any indication that he had given to the committee that there were violations or abuses under title I of the insurance program?

Mr. COLE. Senator, I am sorry I do not recall that. If I have seen it, I do not recall it.

Senator FREAR. Did you, yourself, in any testimony before the Senate Banking and Currency Committee, issue any warning, so to speak, to the committee?

Mr. COLE. No.

Senator FREAR. Mr. Cole, do you suppose had you done that in your appearance after this date of June 24, 1953—and I believe you did appear after that—do you think that had you told the Senate Banking and Currency Committee that there were some abuses to this, and that the public should know about it, that that would have corrected any of the abuses since that time? Do you think the Federal Government might be in a less embarrassing position now had that been done, or not?

Mr. COLE. I must preface it by saying to you that when I received the complaint we asked for and I asked for an investigation to determine whether the complaints were true. I did not receive that investigation until February, the reports on that investigation, until February of this year.

Now, in answering your question, yes, if I had known then what I know now, it would have made considerable difference.

Senator FREAR. But really, back in June 1953, you didn't know about it, and actually it only came to your attention, which confirmed these things, in February of this year, approximately?

Mr. COLE. Again, I think that is correct. You have a complaint; you investigate it; and when you find the investigation is true, then you report.

Senator LEHMAN. Mr. Cole, yesterday Mr. Hollyday testified that, I believe on October 28, 1953, he had issued certain revised regulations. Then in December 1953, the President's Advisory Committee considered those revised regulations, together with others, and came up with this statement:

The FHA has recently issued new regulations, which provide for screening dealers and for tightening the procedures in these cases where the homeowner is not dealing directly with the financial institution. There is attached, as Exhibit 3, a description of the scope of these regulations. It is the judgment of your subcommittee that these new regulations will correct the abuses and that no further requirements should be imposed in this area, at this time.

Now, those are merely regulations, subject to revision and change at any time.

Mr. COLE. Yes, sir.

Senator LEHMAN. They are not in any sense part of the law.

Mr. COLE. That is correct.

Senator LEHMAN. May I ask you whether you would approve the inclusion of all or part of these proposed regulations in the law—not the exact language of the report, but the intent?

Mr. COLE. I certainly wouldn't disapprove of it, Senator. I certainly would not disapprove. I want to point out to you, sir, and I am sure you are aware of the fact, that this program is such that it does require some flexibility of judgment on the part of those administering it. If it is to work, it must have administrative flexibility to a point. Whatever the Congress decides to do to limit that administrative flexibility in order to establish the fidelity and integrity of the system is good. This, I would not object to.

Senator LEHMAN. May I ask you to submit a memorandum to this committee, setting forth those particular recommendations for revisions in the regulations which you think would cripple or slow up to a marked degree the operations of the agency?

Mr. COLE. Yes, we will give you a report on that.

The CHAIRMAN. Are there any further questions?

Senator LEHMAN. Is Mr. Cole going on again?

The CHAIRMAN. Unless there are further questions of Mr. Cole—

Senator LEHMAN. Then I would like to ask one more question for the record.

Mr. Cole, will you tell me how is the valuation of section 608 projects arrived at? In other words, is it (1) the cost of unimproved land plus the estimated cost of construction, or (2) is it the estimated value of the completed project, or (3) is it replacement value which would take into account possible increment of the land values, or that coming from a completed project?

Mr. COLE. I will have to check. Just a moment.

The cost of improvements plus land values.

Senator LEHMAN. Will you repeat that?

Mr. COLE. The cost of improvements, plus land values.

Senator LEHMAN. Plus the original cost of the land?

Mr. COLE. The value. Not the original cost, the value. There is an increment in the—

Senator LEHMAN. The value of the land as part of a completed project, giving effect to any possible increment due to the fact that there is a new project that has been completed.

Mr. COLE. That is correct.

Senator LEHMAN. Is it replacement value? Is that taken into account?

Mr. COLE. On section 608 it is actually replacement cost, not replacement value. Replacement cost.

Senator LEHMAN. Replacement cost would be taken into account?

Mr. COLE. Yes.

Senator LEHMAN. So you have two factors there. The estimated value of the completed project—which is land and the building, that is one factor, plus a second factor of replacement value of the project?

Mr. COLE. Senator, it is the estimate—it is the estimate of the necessary current cost as reflected in the cost of the replacement.

Senator LEHMAN. There must be some definition or standard that is followed in estimating the value of the project on which a mortgage may be issued and guaranteed. It seems to me that it is very important for the record to establish just what that definition or standard is.

Mr. COLE. We will present that for the record, sir.

Senator LEHMAN. May I ask you to do that as promptly as possible, because I think that is something that will have to receive consideration.

(The information requested follows:)

**DIGEST OF FHA INSTRUCTIONS PERTAINING TO REPLACEMENT COST ESTIMATES
UNDER SECTION 608**

Section 608 of the National Housing Act sets forth three upper limits upon the mortgage amount which require the FHA to make estimates of cost. These provisions are as follows:

1. "90 per centum of the amount which the Commissioner estimates will be the necessary current cost of the completed property or project, including the land; the proposed physical improvements; utilities within the boundaries of the property or project; architects' fees; taxes and interest accruing during construction; and other miscellaneous charges incidental to construction and approved by the Commissioner."

2. "90 per centum of the Commissioner's estimate of the replacement cost of the property or project on the basis of the costs prevailing on December 31, 1947, for properties or projects of comparable quality in the locality where such property or project is to be located." The second provision was added to section 608 by amendment made effective August 12, 1948.

3. "The amount which the Commissioner estimates will be the cost of the completed physical improvements on the property or project, exclusive of off-site public utilities and streets, and organization and legal expenses."

The cost estimates under 1 and 2 above are referred to in FHA instructions as the "Total estimate of replacement cost of property," the only difference being that one estimate is on a current basis and the other as of December 31, 1947. The type of estimate made is shown in summary form on page 3 of Form 2264-W attached and includes the items of improvements to land (within property lines); structures, fees (builder's and architect's); carrying charges, financing; legal and organization; and fair market price for land (in fee simple cases).

FAIR MARKET PRICE OF LAND

Instructions required that the fair market price of land be estimated on the basis of comparison with other sites offering similar utility and desirability for the proposed use. The estimate was to be based upon comparison with lands having the benefit of similar off-site utilities, streets or other off-site improvements to be required as a condition of insurance.

In other words, the fair market price estimate was not to be derived by simply adding the cost of raw land to the cost of off-site utilities and streets; the estimated cost could on occasion be more or less than the estimated fair market price derived by comparison, depending upon local market conditions. Further, the instructions required comparison with other sites on which the proposed project or a similar competing project might be built. This stipulated the use of vacant sites in the comparative process which was intended to preclude the fictitious writeup of site price because of an existing or prospective structure. It is in accord with accepted appraisal tenets.

Comparative data regarding not less than 3 other similar sites were required, not less than 5 such comparisons were desirable. Sale prices, assessed values, qualified appraisal opinion, location factors, and physical characteristics of each comparison were to be recorded.

In order to provide an orderly means for recordation of such data and the comparison of the competitive sites with the subject tract, two tables or grids were provided. The project site was to be rated in comparison, with respect to physical and location characteristics and influences, as superior, equal, or inferior to the competitive tract. As a result of this process of correlation, comparison, and analysis, certification was to be made of a fair market price of the subject parcel in fee simple, which price was used in the overall estimate of total replacement cost of the property.

COST ESTIMATE OF IMPROVEMENTS

Items of construction included in the estimate consist of dwellings, accessory buildings, on-site utilities, and on-site landscape work. Separate estimates were made for off-site utilities and off-site landscape work.

The estimate was to be based on current material prices, current rates of production, and prevailing wages not less than those determined by the Secretary of Labor. The estimate included the cost of materials, labor, subcontracts, workmen's compensation insurance, public liability insurance, unemployment insurance, social security, sales taxes, job overhead, builder's and architect's fees.

Current prices were to be obtained from material dealers, mills, builders' sources of supply, subcontractors, and contractors or builders, based on the quantities involved in the project under consideration. A sufficient number of sources were to be contacted to enable the selection of prices which reflected the general level of current costs.

ESTIMATE OF UTILITIES AND LANDSCAPE WORK

On-site utilities included the following items: Site preparation not including demolition of buildings, rough grading, water supply, sprinkling systems, sanitary sewer system, electric service connections, gas mains, heating tunnels, storm-sewer system, pavement for streets, driveways, garage compounds and parking areas, walks, curbs, yard and playground equipment, fences and retaining walls.

On-site landscape work included the following items: Topsoil and soil-improvement materials to be purchased, finish grading, seeding, sprigging and sodding, planting including trees, shrubs, and vines.

BUILDER'S AND ARCHITECT'S FEES

No arbitrarily fixed amounts were to be assumed for either or both fees, for any project, but due consideration was to be given to the conditions of the project, the simplicity or complexity of the work, and the rates of fees prevailing in the area for the services rendered.

Builder's fee was determined by applying a percentage to the total cost of physical improvements (exclusive of architect's fee). This percentage should represent the typical fee usually charged in the locality by the majority of builders, for projects which are similar in type and size to the subject project. The rate most typically allowed was 5 percent.

Architect's fee was determined by applying a percentage to the total cost of physical improvements and builder's fee. This percentage was to be determined by the Chief Architect's giving due consideration to the customary professional practice as well as to the prevailing fees in the area for the services rendered. These fees may show considerable variance due to the repetitious character of the work and also due to the omission of architectural supervision or because the sponsor contracted for only a limited amount of supervision. In general, the rate did not exceed 5 percent.

FHA Form No. 2401-W
Revised May 1946

FEDERAL HOUSING ADMINISTRATION

PROJECT INFORMATION

SECTION 608 RENTAL HOUSING

Date _____ Project No. _____
Name of project _____ Location _____
Type _____ Construction _____ Number of family units _____ Number of rooms _____

PHYSICAL, ECONOMIC, AND SOCIAL DATA

A. CITY

1. Economic stability rating _____ 2. Population as of 194 _____: (a) City _____
(b) Metropolitan area _____ (c) Source of estimate _____
3. Characterize any special climatic or geological hazards _____

B. NEIGHBORHOOD

1. PHYSICAL: Characterize topography _____
2. Economic: (a) Is the district primarily residential, commercial, or industrial? _____ (b) Indicate stability or nature of transitional trend _____
(c) If the district contains any nonconforming land uses, note type and distance from site _____

(d) Do they adversely affect the neighborhood? _____ (e) Are there any other broad economic influences which might adversely affect the neighborhood? _____

(f) Is this neighborhood in a favorable trend of future residential growth? _____

(g) Will the trend of this neighborhood continue to support the project rentals? _____

(h) State rush-hour running time of public transit to central city and the fare: _____ minutes; _____ cents.

(f) Describe briefly principal structures within a block radius of the project and give age and condition of older buildings _____

(k) What are the neighborhood zoning restrictions? _____

3. SOCIAL: (a) Is neighborhood homogeneous in population? _____
 (b) What race or group predominates? _____ (c) How will such population affect the project? _____
 (d) Is the neighborhood undergoing social changes which will improve or impair its value for a project? _____ (e) If so, explain _____

REMARKS: _____

C. SITE

1. PHYSICAL: (a) Describe any flood threat _____
 (b) Is the surface of the site above, below, or at street grade? _____
 (c) Will foundations require special treatment because of rock or soft ground? _____ (d) Describe structures now on site and estimate whether cost or salvage will result from demolition (indicate amount if possible) _____
 (e) Are there preservable trees on the site? _____ (f) State kind, width, and condition of pavements on abutting streets _____
 (g) Are curbs installed? _____ If not, are they required? _____
 (h) Sidewalks laid? _____ (i) Are water, gas, sewer, and electric lines of sufficient size available at the site? _____ (j) If not, will they be provided by the companies without cost? _____
2. ECONOMIC: (a) Will the project appeal to typical, higher or lower income groups than those now predominant in the neighborhood? _____
 (b) What are the present zoning or deed restriction as to—(1) Use? _____
 (2) Height? _____ (3) Coverage? _____ (4) Type of construction? _____
 (5) Other requirements? _____
3. SOCIAL: (a) State the distance in feet from site to—(1) Transit lines (state type) _____ (2) Main traffic highways _____
 (3) Schools (grade and high) _____ (4) Neighborhood shopping center _____
 (5) Main shopping center _____ (6) Fire department apparatus _____
 (b) Seating capacity of elementary schools _____ Enrollment in elementary schools _____

DETERMINATION OF MARKET PRICE OF LAND

- A. 1. What is the area of the project site? _____
 2. List below sales prices or listings of comparable parcels:

Parcel No.	Location	Area	Assessed value land per parcel	Sales price per parcel	Appraisal per parcel
1					
2					
3					
4					
5					

3. What special circumstances, if any, affected these sales or listings?-----

B. COMPARISON GRID FOR DETERMINING RELATIVE DESIRABILITY OF PROJECT AND COMPARABLE SITES

Parcel number.....	1			2			3			4			5		
	Project site is—			Project site is—			Project site is—			Project site is—			Project site is—		
Feature	Superior	Equal	Inferior	Superior	Equal	Inferior	Superior	Equal	Inferior	Superior	Equal	Inferior	Superior	Equal	Inferior
CITYWIDE FACTORS															
Relation to most suitable residential trend.....															
Relation to appropriate employment areas.....															
Relation to existing and known future civic betterments.....															
Relation to public transit services.....															
Relation to present and future tax burdens.....															
NEIGHBORHOOD FACTORS															
Adequacy of zoning and deed restrictions.....															
Social and income characteristics of neighborhood inhabitants.....															
Influence of population growth, stability, or decline.....															
SITE FACTORS															
Influence of surrounding improvements.....															
Topography, foundation requirements, freedom from flood threat, etc.....															
Security against special hazards, noise, smoke, traffic, undesirable outlook, etc.....															

C. CERTIFICATION OF FAIR MARKET PRICE

I HEREBY CERTIFY, That I have read Section 512 (a) of the National Housing Act; that I have no personal interest, present or prospective, in the property, the applicant, or the proceeds of the mortgage; that I have examined the parcel of land which is to be used for this project (and which is legally described on Form No. 2013-W or exhibits attached thereto); and that, based upon an analysis of the available information, a fair price on the current market for this parcel of land in fee simple is, in my opinion, \$----- per----- or a total of \$-----

4. Mandatory conditions (if any) on which above estimate of land price is based:

Is the project site unacceptable as mortgage security under Section 608?-----
 If so, explain fully-----

Remarks:-----

(Signed)-----

(Title)-----

Date-----

RENTAL HOUSING: SURVEY AND ESTIMATES

A. CITYWIDE DATA

1. Estimate the present occupancy ratio in all residential units -----%; in detached houses -----%; in 2- and 4-family flats -----%; in multi-family walk-up apartments -----%; in multi-family elevator apartments -----%.
2. What rental range shows the highest ratio? ----- prpm.
3. What volume of competitive construction is under way? -----

4. Will existing vacancies, plus present construction, fill city-wide demand? -----

B. NEIGHBORHOOD DATA

1. What is the typical income of the neighborhood residents? \$----- per year.
2. Indicate the typical age of the residential structures in the neighborhood -----
3. Are they generally well maintained? -----
4. Is any part of the neighborhood in a transition period? -----
5. If so, describe and state its probable effect on the project -----

6. Estimate the proportion of vacant residential units, separating into—(a) detached houses -----; (b) 2- and 4-family flats -----; (c) multi-family walk-up apartments -----; (d) multi-family elevator apartments -----
7. Give a brief summary of recent residential construction -----

8. What has been the absorption of such construction? -----

9. What is the predominant type of residential building? -----
10. What is the predominant type of multi-family building? -----
11. State the first, second, and third most popular number of rooms per unit in multi-family buildings—(a) -----; (b) -----; (c) -----

12. If off-the-street parking facilities are necessary, explain _____
 13. Is this property in a rental control area? _____. If so, what is the
 "maximum rent date" fixed by O. P. A.? _____

C. MONTHLY RENTALS—COMPETITIVE UNITS AND PROJECT ESTIMATE

Number of rooms	Rooms	Actual rentals—competitive units				Estimated currently obtainable rents for project units		
		A	B	C	D	Rents	Occupancy ratio	Number units
							Percent	
2	LR-SK-BR	\$	\$	\$	\$	\$		
2½	LR-DA-K							
3	LR-K-BR							
3½	LR-K-DA-BR							
4	LR-K-DR-BR							
4½	LR-K-2BR							
4½	LR-K-DA-2BR							
5	Detached house							
5	Two family							
Garage								

Above occupancy ratios can probably be attained in _____ months if project is completed in time for best renting season, namely, the months of _____

Total monthly rents per unit, priorities application: _____

Services included in total rents: _____

Applicable legal maximum rental controls are the same for the subject property and competitive units ☐ A, ☐ B,
☐ C, ☐ D.

Location of competitive units—(a) _____

(b) _____

(c) _____

(d) _____

If there is a probability of revenue from stores, parking plots, etc., estimate the gross amount and give other informative details _____

D. ITEMS INCLUDED IN MONTHLY RENTALS

Com- petitive units	Age	Heat	Water		Electricity		Cook- ing fuel	Jani- tor	Appliances		Ele- vator	Tele- phone	Gar- age
			Hot	Cold	Lights	Re- friger- ation			Re- friger- ator	Range			
A													
B													
C													
D													

E. DATA FOR ESTIMATING OPERATING COSTS

Item	Unit	Cost per unit
ing fuel:		
Coal.....		\$.....
Oil.....		.....
Gas.....		.....
Food and cost of garbage and rubbish removal.....		.....
Electricity (lights).....		.....
Electricity (power).....		.....
Water consumption per family per year.....	gallons.	.....
Water cost per family per year.....	\$.....	.....
Garage.....		.....
Wardens.....		.....
Motor operator.....		.....
Washing.....		.....
Age tenant turnover per year.....	percent.	.....
Management.....		.....

F. INSURANCE—GIVE LOCAL ANNUAL RATES FOR PROJECT BUILDINGS ON
THREE-YEAR BASIS

Fire, \$..... net rate; with % coinsurance, \$.....
 Liability 3. Windstorm, \$..... net rate;
 with % coinsurance, \$..... 4. Other
 Has this been established by rating bureau or local agent?

G. TAXES

What ratio currently exists between assessed value and market price?

State present assessed value of the site \$.....; applicable tax
 rate \$..... per

Estimated assessed value of land after improvement \$.....; applicable
 tax rate \$..... per

How does the assessor estimate the value of new buildings?

What percent of this estimate does he use as the assessed value? %.

State the tax rate applied to the above assessed value \$..... per

If there is no separation of the assessed value of land and buildings, how
 does the assessor arrive at his value for the completed project

.....; applicable tax rate \$..... per

State the present annual tax per room for the competitive units shown in
 Table "C" on page 3: (A) \$.....; (B) \$.....;

(C) \$.....; (D) \$.....; (Average) \$.....

..... Comment:

State the probable annual tax on this project when completed: Land, \$.....

.....; Building, \$.....; Total, \$.....

Give estimated rate for special assessments (for

years) \$..... per (for years) \$.....

per

H. GENERAL RECOMMENDATIONS

1. In your judgment, does the condition of the rental market in this city war-
 rant the construction of this project? Explain:

2. How many family units do you recommend for the project?

3. Indicate best outlook from and best approach to the project

4. Do project room sizes conform to local demand for comparable units?
 Explain any variation:

5. Are projected garage facilities adequate?; is sufficient outside
 parking space available?

HOUSING ACT OF 1954

Date _____ (Signed) _____

REMARKS: _____ Valuator.

(S₁—3)

Date _____

(Signed) _____
Title _____

Date ----- Title) -----
☐ Chief Valuator. ☐ Deputy for Chief Valuator

REMARKS: _____

FEDERAL HOUSING ADMINISTRATION

PROJECT ANALYSIS

Date _____ Project No. _____

Date ----- Project No. -----
Name of project -----

Name of project -----
Location -----

Type of project _____ **Construction** _____

Type of project ----- Construction -----
Accessory buildings -----

Accessory buildings -----
Number of rooms -----

Number of rooms -----
Number of family units -----

Number of family units -----
Average rooms per family unit -----

Average rooms per family unit _____
Estimated average rent p. r. p. m. \$ _____

Estimated average rent p. r. p. m., \$-----
Average rent per family unit p. m. \$-----

ESTIMATE OF INCOME

INCOME (DWELLING UNITS)

Number of each unit type	Percent of total units	Rooms per unit	Composition of units (L. R., 2 B. R., K., etc.)	Estimated unit rent per month	Monthly rent at 100 percent occupancy	Annual rental at 100 percent occupancy
				\$.....	\$.....	\$.....
Total number of rooms	● average rental of \$..... per room per month					

ACCESSORY INCOME (GARAGES, STORES, ETC.)

Number	Type	Estimated rent per month	Annual rent at 100 percent occupancy
.....		\$	\$
.....	
.....	
Total accessory income			\$
Total estimated income at 100 percent occupancy			\$

ESTIMATED ANNUAL OPERATING EXPENSE

	Unit basis of estimate	Amount per unit	Amount per item	Total	DECORATING
Renting expense:					
Advertising.....					Materials only (labor on "decorating payroll")
Commissions.....					Materials and labor (contract price)
Administrative expense:					Materials and labor (Strike out inapplicable line above)
Management.....					Tenant space (every years) \$.....
Superintendent.....					Public space (every years) \$.....
Clerical.....					Exterior buildings (every years) \$.....
Telephone and telegraph.....					Accessory buildings (every years) \$.....
Legal and audit.....					Total \$.....
Office expense.....					
Operating expense:					DECORATING PAYROLL
Elevator power.....					
Elevator maintenance.....					Position Number Monthly rate Per annum
Heating and ventilating.....					
Janitorial expense (materials).....					
Lighting—miscellaneous power.....					
Water.....					
Gas.....					
Garbage and rubbish removal.....					
Payroll (see schedule).....					Total \$.....
Maintenance expense:					OPERATING PAYROLL
Decorating (see schedules).....					
Repairs.....					
Exterminating.....					
Insurance.....					
Grounds expense (materials only).....					
Furniture and furnishings.....					
Miscellaneous.....					
Total operating expenses.....	P. R. P. A.		xxxx		
Reserve for replacements.....	P. R. P. A.		xxxx		
Total expense and reserve.....	P. R. P. A.		xxxx		Total \$.....

ESTIMATE OF TAXES

Improvements

	Assessor's reproduction cost	Percent debased or equalized	Assessor's valuation	Percent of assess- ment	Assessed value	Tax rate per \$1,000	Annual tax
Main buildings	\$	%	\$	%	\$		\$
Garages		%		%			
Other		%		%			
Total annual tax for improvements							\$
Land:							
Estimated assessed value upon completion of improvements	\$						
Estimated tax rate (normal land tax)	\$				per		
Estimated total land tax							\$
Total estimated real estate tax (per room \$) per annum							
Miscellaneous operating taxes:							
Social Security tax					\$		
Other special local taxes							
Total miscellaneous operating taxes							
Total taxes (excluding income, capital stock, and franchise taxes)							

ESTIMATED ANNUAL OPERATING STATEMENT

	Annual in- come at 100 percent occupancy	Estimated occupancy (percent)	Gross income expectancy
Income: (See schedule page 1)			
Dwelling units	\$		\$
Garages			
Stores			
Total estimated income			
Gross income expectancy			\$
Operating expenses and taxes:			
Operating rooms @ \$ p. r. p. a		\$	
Reserve for replacements @ p. r. p. a			
Total taxes (excluding income, Capital Stock, and Franchise, Taxes)			
Total Operating Expenses and Taxes			
Estimated net income, after Operating Expenses and Taxes			

EQUIPMENT AND SERVICES INCLUDED IN RENT

Equipment Furnished Tenants:

Ranges (gas or electric)
Refrigerators
Kitchen exhaust fans
Attic vent fan
Showers (in tub or separate)
Laundry facilities
Venetian blinds
Other

Services Included in Rent:

Water (hot and cold)
Space heat
Janitor service
Grounds maintenance
Refrigerator current
Other

REMARKS

ESTIMATED REPLACEMENT COST OF PROPERTY

Improvements to land ():

New utilities

Landscape work

Total

Structures:

Dwellings
Garages
Other

Taxes (social security, sales, etc.)-----	
Performance bond premium -----% on \$-----	
3:-----	
Builder-- \$----- @ -----%	-----
Architect \$----- @ -----%	-----
Total estimated cost of structures plus fees-----	
Total for all improvements-----	
rying charges; financing:	
Interest ----- mo. @ -----%	-----
Taxes (real estate)-----	
Insurance (fire, windstorm, liability, etc., during	
construction) -----	
FHA mortgage insurance premium -----%	×
mortgage \$-----	
FHA examination fee -----%	of \$-----
FHA inspection fee -----%	of \$-----
Financing expense -----%	
Title and recording expense-----	
Total carrying charges; financing-----	
al and organization:	
Legal expense-----	
Organization expense-----	
Total legal and organization-----	
al estimated cost (exclusive of land and required	
nstruction off the site)-----	
r market price for this parcel of land in fee simple	
from FHA form 2401):	
----- square feet @ ----- per sq. ft.-----	
Total estimate of replacement cost of property-----	
hereby certify that I have read section 512 (a) of the National Housing	
, as amended; that I have no personal interest, present or prospective, in	
property, the proceeds of a mortgage proposed to be secured by the property	
he applicant therefor.	
e -----	(Signed)-----
	Valuator.
e -----	(Signed)-----
	(Approved)
<input type="checkbox"/> Chief Valuator.	
<input type="checkbox"/> Deputy for Chief Valuator.	

DETERMINATION OF MAXIMUM INSURABLE MORTGAGE

Total for all physical improvements, carrying charges, and financ-	ing-----	\$-----
0% of total estimated replacement cost of property-----		\$-----
Amount based on limitation as to debt service ratio:		
(a) Mortgage interest rate-----	-----%	
(b) Mortgage insurance premium-----	-----%	
(c) Mortgage amortization 1st yr-----	-----%	
(d) Sum of above items-----	-----% (d)	
(e) Net income-----	\$----- × 91% = \$-----	(e)
(f) Annual special assessments-----	\$-----	
(g)-----	\$-----	
(h) Total of (f) and (g)-----	\$-----	(h)
(i) Item (e) minus (h)-----	\$-----	(i)
(j) Item (i) + Item (d)-----		\$-----
Amount based on statutory limitation per room or per unit:		
(a) Number of rooms units-----	× \$----- = \$-----	
(b) Ratio cost of "Total Structures" to "Residential and		
Related Uses" -----% (From Form 2412).		
(c) Item (a) × Item (b)-----		\$-----
Mortgage amount stated in application-----		
MAXIMUM INSURABLE MORTGAGE (Lowest of above amounts)-----		
\$-----		

ESTIMATED REQUIREMENTS FOR COMPLETION OF THE PROJECT

1. FHA total estimated cost exclusive of land (and exclusive of required construction off the site) ----- \$-----
2. Mortgage loan proceeds ----- \$-----
3. Amount for fees to be paid by means other than cash ----- \$-----
4. Estimated amount of cash to be escrowed at closing ----- \$-----
5. Total (to equal the amount of Item 1) ----- \$-----

ADDITIONAL REQUIREMENTS

In addition to the above requirements land must be free and clear of encumbrances; additional cash must be escrowed at closing in the event the cash required by the contract documents exceeds the sum of the mortgage and the cash indicated in Item 4 above; cash working capital of \$----- is to be escrowed at closing, and provision must be made for off-site requirements estimated to cost \$----- (Form 2411).

ANALYTICAL SUMMARY

Ratio: Mortgage \$----- to total for all improvements, carrying charges, and financing \$----- %
 Ratio: Mortgage \$----- to estimated Replacement Cost of Property \$----- %
 Ratio: Debt service requirements \$----- to estimated net income \$----- %
 Amount of mortgage allocable to dwellings only; per family unit, \$-----; per room ----- \$-----
 Estimated replacement cost of property ----- per family unit, \$-----; per room ----- \$-----
 Ratio: Income from dwellings @ 100% occupancy to all income at 100% occupancy ----- %
 Ratio: Total operating expenses and taxes \$----- to gross income expectancy \$----- %
 Ratio: Debt service requirements \$----- to gross income expectancy \$----- %
 Point of technical default: ----- %
 Point of FHA loss: ----- %

REMARKS: -----

Date ----- (Signed) ----- *Mortgage Credit Examiner.*
 Date ----- (Approved) ☐ (Signed) -----
☐ Chief Mortgage Credit Examiner.
☐ Deputy for Chief Mortgage Credit Examiner.

The CHAIRMAN. Unless there is objection, the committee will stand in recess until 2:30, at which time we will have Mr. Greene, Mr. Kane, who is legislative representative of the Office of the Comptroller General, and William A. Newman, Associate Director, Division of Audit, General Accounting Office.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 2:30 p. m. the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order. Our first witness will be Mr. Kane, legislative attorney of the Office of the Comptroller General.

Mr. HOLLYDAY. Mr. Chairman, may I ask a procedural question?

The CHAIRMAN. You may, of course.

r. HOLLYDAY. I wasn't here, sir, during all of the testimony this morning because I was checking on my own testimony of yesterday as a matter of fact, for the benefit of my memory, I am going to ask if I may have a copy of Mr. Cole's testimony when it is ready this afternoon.

he CHAIRMAN. The testimony in a public hearing such as this is available to anybody who wants to look at it.

r. HOLLYDAY. If at the end of the day I could have it, I would like to have it much—

he CHAIRMAN. You can't have it until tomorrow morning when it is typed.

r. HOLLYDAY. Whenever it is available.

he CHAIRMAN. This is a public hearing and the testimony is available to anybody.

r. HOLLYDAY. May I ask another question?

he CHAIRMAN. Certainly.

r. HOLLYDAY. I am very much interested in the order of procedure. I understand you have Mr. Greene, and I assume you will have Mr. Murphy, whom you said yesterday that you would call, and I would like to know when Mr. Murphy will be on. He has charge of all the investigators. Then after the testimony has been made, I presume you are going to give me an opportunity to clarify anything that has been clarified by the previous witnesses. As a matter of fact, if possible, I hope to leave at the end of the week.

he CHAIRMAN. If you think you can add anything to the facts and helpful to us we will be delighted to listen to you.

r. HOLLYDAY. Thank you, sir. If I could leave at the end of the week, Thursday morning or Thursday afternoon, I will leave it to you.

he CHAIRMAN. Fine. If you have any information that you think is valuable, you speak to me.

r. HOLLYDAY. I am speaking to you right now and I would like to leave on Thursday or anytime that suits you.

he CHAIRMAN. You want to testify again?

r. HOLLYDAY. Yes, sir; very definitely.

he CHAIRMAN. Very well, we will speak to you when the hearings are over today, and see when we can schedule you.

r. HOLLYDAY. Thank you.

he CHAIRMAN. Thank you, sir.

Now, Mr. Kane, you are the legislative attorney of the Office of Comptroller General?

r. KANE. That is right.

he CHAIRMAN. And you want to read a short statement. I think you had better swear you in.

r. KANE. I have with me Mr. William Newman, Associate Director of Audits.

he CHAIRMAN. Do you both solemnly swear to tell the truth, the whole truth and nothing but the truth, so help you God?

r. NEWMAN. I do.

r. KANE. I do.

**TESTIMONY OF OWEN A. KANE, LEGISLATIVE ATTORNEY, OFFICE
OF THE COMPTROLLER GENERAL, AND WILLIAM A. NEWMAN,
ASSOCIATE DIRECTOR, DIVISION OF AUDIT, GENERAL ACCOUNTING
OFFICE**

Mr. KANE. Mr. Chairman and members of the committee, we are pleased to be here today, and the Comptroller General directed me to advise your committee that the General Accounting Office stands ready to furnish whatever information and assistance it can to the Congress in its study and examination of the administration of the Federal housing program.

You may recall that the Comptroller General took quick action on an FHA matter in 1949, concerning gifts, ranging from television sets, cases of liquor, watches, to hosiery, which most of the Washington district field officials and employees received from firms doing business with the FHA. That was in 1949.

The General Accounting Office has audited the financial transactions of the FHA under the provisions of the Government Corporations Control Act, beginning with that year. Prior to that time, disbursements of FHA were examined as a part of the centralized voucher audit by the General Accounting Office, which, of course, did not entail examination of the books and records and operations of that agency.

Prior to that time—as you know the housing legislation gives very broad authority to the Administrator and he is authorized to make expenditures without regard to any provisions of law governing the expenditure of public funds.

Consequently, the chances of detecting irregularities of the type now concerned in this committee under the voucher audit are practically nil and that is why the Comptroller General endorsed auditing of the agency under the Government Corporations Control Act.

The first audit report of FHA, under the Government Corporations Control Act, was transmitted to the Congress on June 21, 1950. Under that act, the GAO is required to make a commercial-type audit of the financial transactions of the FHA and to make whatever recommendations in the report to the Congress that the Comptroller General deems desirable.

The scope of the audit, of course, is limited to the books, records, and operations of the agency and does not extend to the fiscal processes and activities of the insured financial institutions, as mortgagees, and the builder as mortgagors. Congress vested broad powers in the FHA Administrator providing a tremendous housing program to the American private enterprise system by the mortgage insurance approach rather than by direct appropriation of taxpayers' funds. Yet, while no appropriated funds are used in the program, the Government has a multibillion dollar stake in it as a guarantor. It could hold the bag for billions if another depression catastrophe hit us.

In view of this critically important stewardship of the FHA, we purposely concentrated in making our audit, on the effectiveness of FHA accounting and internal control and the general tightness of administration. The first audit report that we made under the Government Corporations Control Act is replete with definite suggestions in this regard. I will mention a few.

Senator BRICKER. What was the date of that report?

Mr. KANE. The report was sent to Congress on June 22, 1950. One of the suggestions was to strengthen accounting policies and procedures, including reporting of premium income, on the basis of premiums earned, rather than on the basis of premiums collected. A very important recommendation which was adopted by FHA was that out \$35 million in past administrative expenses borne by the Government be recovered by charging them against the mutual group earnings. Although this matter had been studied by FHA officials, we feel it was our efforts that inspired them into taking action. We stated that lending and collection practice in connection with title I defaulted notes was one of the most important problems confronting FHA and pointed out the need for strengthening this operation. In addition to making that statement in the report, we wrote a letter to the Commissioner dated June 30, 1950. We pointed out other specific areas of administrative deficiencies, especially weaknesses in the underwriting and appraisal operations and its personnel. The letter specifically mentioned that—

insurance commitments are based on values established by FHA underwriting representatives.

In many instances, these appraisals exceeded the estimates submitted by the builders or the contractors.

If the chairman would like, I have a copy of the letter.

The CHAIRMAN. Will you send it up to the Chair, please.

Now this is a letter that you sent to the FHA Commissioner?

Mr. KANE. Yes.

The CHAIRMAN. This is on June 30, 1950. It was addressed to Mr. Franklin D. Richards who was the Commissioner at that time, and you start out by saying:

As part of our audit of FHA for fiscal year 1949, we visited the insuring offices in Newark, Philadelphia, Birmingham, and District of Columbia. Our purpose was to determine the degree of compliance with prescribed procedures for underwriting, handling of cash receipts and supplies, preparation of vouchers and general office routine; to observe the title I collection methods in operation and to ascertain the progress made by the offices in correcting deficiencies previously reported by FHA auditors. We enclose for your preliminary consideration a summary of our observations. We should like to discuss the points raised in greater detail at a time convenient to you or to your staff. If we may then have your comments and be informed of the corrective action taken, our 1950 audit will be greatly facilitated.

Then, we have nearly four pages of observations and weaknesses. You don't remember whether you sent a copy of this to this committee or not, do you?

Mr. NEWMAN. We didn't, sir.

The CHAIRMAN. You know this inquiry or study or investigation, whatever you care to call it, brings forcefully to my attention what I think is a weakness of the Government, namely, that under the Reorganization Act each committee of Congress is responsible for the proper administration of the laws and departments of Government over which they have jurisdiction. For example, this committee has complete jurisdiction over housing, and yet we do not seem to receive—and I suspect that is true of all other standing committees—we do not seem to receive—I shall not say cooperation, but all possible operation on the part of administrative bodies of our Government. Everybody in Washington seems to have known about the deficiencies in the Housing Act except the committee that handles it. Here

is an instance, you see—I am not criticizing you folks, or being critical of you, or anyone else, in calling attention to this matter, but here is a case where, when this went to the FHA, if likewise a copy had come to our committee it would have been invaluable. We find that the Internal Revenue Administrator for a year, now, has been making what he terms a great study of this whole problem. He has been turning over records and certain information to the Committee on Nonessential Expenditures. Yet that committee turned over nothing to this committee, and the Internal Revenue has failed to say that first word to this committee.

So, maybe, if nothing else comes out of this investigation—and I hope more will come out of it—we can set up a system whereby committees which do have the responsibility under the Reorganization Act—whether they like it or not, they have that responsibility—will be in a position to keep informed by the administrative departments who deal in these things.

This is no criticism of you at all.

Mr. KANE. Mr. Chairman, I think that is a very good observation.

The CHAIRMAN. Have you noticed that as a weakness yourself in the General Accounting Office?

Mr. KANE. Mr. Warren has taken very definite steps with respect to that, Mr. Chairman. I cannot state definitely whether the 1949 and 1950 reports were sent to this committee, but it is the policy of the Comptroller General, notwithstanding that under the Legislative Reorganization Act of 1946 reports of the Comptroller General are sent to the Government Operations Committee, we, as a policy, send a copy of each audit report that we send to Congress, to the legislative committees, and that has been our practice.

The CHAIRMAN. I think it has been a general failure on the part of everybody, and I think we may well be criticized ourselves—meaning the Senate or the Congress—in not setting up a system whereby we get them. I am just sort of complaining about the general procedure now, of this whole business. It doesn't make sense to me that one department of the Government doesn't know what the other department is doing.

For example, this matter of the Internal Revenue Service for over a period of a year furnishing one committee with information vital to this whole problem, and we who have the responsibility for housing and have just held hearings that ran for weeks and weeks on the subject, which was in the newspapers every day, and yet the Internal Revenue Service failed to inform us of anything whatsoever of what was going on in their department.

In fact, we had to get a directive from the President of the United States to get what information we did get. Yet they voluntarily have been giving information to another committee over a period of a year.

Senator BENNETT. May I ask a question?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. The chairman was undoubtedly on the committee when this report was made that there were gifts to the FHA. Was that situation, the reception of gifts by officers—

The CHAIRMAN. What was the question?

Senator BENNETT. The witness has testified—in what year, 1949?

Mr. KANE. 1949, Senator.

Senator BENNETT. In 1949 they discovered certain gifts which were made to people in the FHA. Was that information given to the committee.

The CHAIRMAN. I was a member of the committee though I was not chairman and I do not remember it.

Mr. KANE. That was not in the audit report for the fiscal year 1950, for which it was reported, and for this reason, that it was a matter of common knowledge at that time—it hit the newspapers, and when the Comptroller General brought the matter to the attention of the Commissioner, prompt action was taken by the Commissioner to have the gifts returned, and a strong policy was established to prevent repetition.

Senator BRICKER. Did you confer with the representatives of this committee in 1947 and again in 1949 when we were attempting to write a section to prevent the overmortgaging of properties under section 608?

Mr. KANE. I have not checked that, Senator. I have only been in this position for about 5 years, which would take it back to 1949. I cannot say positively whether or not we were asked for a report by the committee for our views on the legislation.

Senator BRICKER. In 1947 we asked the representatives of this committee to confer with the various departments of the Government in an attempt to close the gap which made possible the discrepancies that are now apparent. There was a great deal of opposition to it, at the time, not only upon the part of the industry, but upon the part of FHA. Again in 1949 it was called to our attention. Of course, then the next bill permitted the section to lapse, but we have been alert, at all times, to this possibility, and even to the actual—it isn't a violation of the law, but the actual overvaluation of property, so that there might be a profit made out of the mortgage itself.

Mr. KANE. I do not recall seeing anything in our files by way of a report to this committee at that time. It is logical that we wouldn't make a voluntary report because we were not under the same type of audit as now.

The CHAIRMAN. Mr. Kane and Mr. Newman, you and people in your department have been very cooperative regarding matters we have made inquiry of you for. But my criticism at the moment is of the fact that there ought to be some sort of system where these things work automatically. We ought not to be put in the position to have to ask the Internal Revenue Service and the General Accounting Office and other departments to furnish us with information. They ought to voluntarily have a system that automatically refers it to the respective committees who have jurisdiction and have responsibility.

For example, the Internal Revenue Service says they have been working for a year on this matter. They did deliver us the other day 1,149 cases that are going to be very, very valuable to this committee. But my point is, why didn't they do it 6 months ago; why didn't they do it 90 days ago when we were considering this bill? Why did they keep it under a bushel? Why did they give it to one committee and not give it to another? Particularly not give it to the committee that has jurisdiction, that can do something about it?

Mr. KANE. I think it is an excellent suggestion, sir.

The CHAIRMAN. We are going to find out in this instance why it was not given to this committee. We are going to get right into it

because to me, I am afraid it shows a weakness in cooperation between the legislative and the administrative branches of Government. We cannot legislate intelligently up here unless we have the facts. No one knows that any better than you people do, because you deal in facts, over in your Department.

Mr. KANE. That is one of the wonderful things that has happened in the last few years under Mr. Warren, is his understanding and desire to help Congress and its committees, and we are greatly appreciative of the interest and the action taken by the committees on our report. It is most disheartening to have a report sent somewhere and have it not acted upon, as an example. As I said, the policy of Mr. Warren and his requirement is that each legislative committee be furnished a copy of the report that we send at the same time we send it to the Congress.

The CHAIRMAN. I am not criticizing any particular department. I think we are just going to have to learn to work a little closer together.

I think these recommendations that you made back in June 30, 1950, we are going to place into the record. Have you an extra copy of this?

Mr. KANE. I have several copies here, Senator.

The CHAIRMAN. Let's have one for each member of the committee, will you please?

We will stand in recess until we can go to the floor and vote.

We ought to be back in about 10 minutes. If you gentlemen will stand by we will appreciate it very much and we will be back in about 10 minutes' time.

(A short recess was taken.)

The CHAIRMAN. Without objection, we will place in this record the General Accounting Office letter of June 30, 1950, to Mr. Richards, together with the enclosure, and the summary of observations in five insuring offices.

(The document referred to follows:)

GENERAL ACCOUNTING OFFICE,
CORPORATION AUDITS DIVISION,
OFFICE OF THE DIRECTOR,
Washington, June 30, 1950.

Mr. FRANKLIN D. RICHARDS,
Commissioner, Federal Housing Administration,
Washington, D. C.

DEAR MR. RICHARDS: As a part of our audit of FHA for the fiscal year 1949 we visited the insuring offices in New York, Newark, Philadelphia, Birmingham, and the District of Columbia. Our purpose was to determine the degree of compliance with prescribed procedures for underwriting, handling of cash receipts and supplies, preparation of vouchers, and general office routines; to observe the title I collection methods in operation; and to ascertain the progress made by the offices in correcting deficiencies previously reported by FHA auditors.

We enclose for your preliminary consideration a summary of our observations. We should like to discuss the points raised in greater detail at a time convenient to you or to your staff. If we may then have your comments and be informed of the corrective action taken, our 1950 audit will be greatly facilitated.

Very truly yours,

STEPHEN B. IVES, *Director.*

SUMMARY OF OBSERVATIONS IN FIVE INSURING OFFICES

1. TITLE I—FHA FIELD COLLECTION ACTIVITIES

We noted the following weaknesses:

(a) At December 31, 1949, there were only 37 title I representatives employed in all insuring offices. At that date these representatives were charged

nearly 31,000 cases totaling nearly \$9,500,000. In some offices more than cases were assigned to one person.

There was no definite collection policy, correspondence with debtors was haphazard, and individual cases were not given adequate personal followup.

Title I representatives worked with little or no supervision.

The ratio of collection costs to collections made seems high.

We recommend establishment of definite collection policies and either employment of an adequate staff of field representatives under more effective supervision or the use of a collection agency to supplement or to replace the FHA collection staff.

2. TITLE I—DEPARTMENT OF JUSTICE COLLECTION ACTIVITIES

Discussions with the United States Attorney at the insuring office locations indicated that:

The debts when submitted by FHA were too old to permit satisfactory financial results.

A bankruptcy case was submitted too late for filing of creditor's claim.

In some cases, upon investigation of the facts, it was found that dealers sold the debtor, products were of inferior quality, and adequate repair and maintenance service was not available.

These conditions should be studied in connection with the observations set forth under the preceding caption, and consideration should be given to ways of reducing the number of cases sent to the Department of Justice.

3. FIELD UNDERWRITING PRACTICE

observed that:

In several instances the education, training, and experience of underwriting personnel were less than those prescribed by FHA for the positions held by individuals.

There was a tendency to neglect the training of personnel in an effort to increase the time available for operations.

Insurance commitments are based on values established by FHA underwriting representatives. In many instances these appraisals exceeded the estimates submitted by builders or contractors. Estimates are prepared by applying variation percentages to material and labor costs computed a number of years ago rather than by using current prices. We were told in Birmingham that the Federal salary scale is too low to attract qualified architects. The underwriter in Birmingham was not following prescribed procedures for selection and approval of cost estimates. In the case of one large housing development the same valuation was placed on all houses of a given type of construction regardless of the location of the house.

Fees charged are not sufficient to cover the cost of processing insurance applications.

The loss probability indicated by the mortgage pattern rating of mortgages does not seem to be borne out by the losses sustained.

We recommend that you have your staff make a more detailed study of underwriting practices.

4. HOUSING INVESTMENT INSURANCE—TITLE VII

Insurance has been written under this program. The State directors whom we interviewed told us that this type of insurance has little chance of wide acceptance by potential investors. This belief may have created a passive attitude so retarded the progress of the program. The following factors were considered detrimental to the plan:

State restrictions.

The recently established policy as to race and creed.

A tendency on the part of potential investors to purchase insured mortgages rather than real estate.

We suggest that you determine whether the conclusions expressed by the State directors are valid. If they are valid and if the program is needed, we suggest that you should suggest amendments to make the legislation more acceptable. If the program is not needed or is impracticable, we believe that you could recommend its repeal.

5. OFFICE MANAGEMENT SECTION

Office procedures are prescribed in the field operating manual. During our visits we observed a number of deviations from these procedures:

(a) Inadequate safeguarding of remittances and legal documents during office hours.

(b) Failure to endorse remittances promptly upon receipt.

(c) Deposits of FHA funds made by employees who are not bonded.

(d) Failure to maintain proper time and attendance records: (1) There was no daily approval by section chiefs; (2) there was no control of itineraries of title I representatives, construction examiners, and evaluators.

(e) Unsatisfactory control over inventory of supplies: (1) Office employees were permitted free access to supply rooms; (2) some supplies were not stored in the supply room; (3) supply clerks' control records were indifferently maintained.

(f) Travel and expense vouchers not reviewed for propriety of expenses incurred.

(g) Equipment (typewriters, cameras, etc.) issued to underwriting personnel not adequately receipted for.

(h) Joint verification of daily deposit by office manager and receiving clerk not being performed.

(i) Failure to maintain the central control system of "status cards" on cases flowing through the office.

(j) Locator card files not maintained for office equipment.

(k) Files poorly maintained and no chargeout system in effect.

(l) Title I account cards not in agreement with Washington inventory controls.

(m) Title I account cards not properly safeguarded.

Many of these points had been noted by the Fiscal Audit Section field auditors and called to the attention of the management, but they still existed at the time of our visits.

We recommend that decisive action be taken to eliminate these continuing violations of prescribed procedures.

6. GENERAL

We noted that the State directors devoted very little time to supervisory functions. The situation in Birmingham was discussed with Mr. Greene who said that he was aware of the existing conditions. In the New York office the office manager concerned himself with matters of a detailed nature and the administrative assistant devoted his time principally to personnel matters. We found no evidence of any attempts by the State directors or the unit heads to correlate their functions for the elimination of any unnecessary or duplicated activities or for the temporary use of personnel in one group to assist in the work of other groups.

The field operating manuals outline the duties and responsibilities of official and operating personnel. There were indications that the manual was not being followed, either by the management or by the personnel. These deficiencies have been noted by the auditors of the Fiscal Audit Section of the Comptroller's Division as well as the supervisory representatives of the Field Operations Division and have been called to the attention of the management in Washington, but there was little evidence of remedial action.

We suggest that greater emphasis be placed on effective supervision.

The CHAIRMAN. This indicates that you called to their attention in those days, many of the things we are talking about today.

Mr. KANE. That is right, Senator. This is a more detailed statement of things in the audit report.

The CHAIRMAN. It won't do us much good to talk about it at the moment, but we will certainly take a good look at those when we start writing up the bill in a couple of weeks.

Mr. KANE. In the 1949 audit report, recommendation was made that Congress require the FHA to repay the Government's investment and to pay for costs borne on its behalf by other agencies, such as the civil service retirement and compensation benefits, rent, and similar expenses. As pointed out in our 1951 audit report—

Mutual Mortgage Insurance Fund earnings are distributed to mortgagors. Government is, in effect, subsidizing these mortgagors to the extent of all borne by the Government—that are applicable to operating and financing program.

recommendation has been repeated in all of our subsequent

glad to state that your committee and the House Committee Banking and Currency put our recommendation into effect last concerning repayment of the Government's investment of approximately \$75 million plus interest in the several insurance funds. In the 1951 and 1952 reports we recommended that Congress authorize the FHA to settle claims in cash instead of having to pay by issuance of debentures to the claimant. The debentures may be called for redemption upon 90 days' notice, and it has been the policy to redeem in the shortest possible period. This circuitous procedure is tantamount to cash settlement and adoption of our recommendation would save interest, accounting, and other administrative expenses incurred.

The authority to issue debentures should remain for use in time of emergency.

In the 1951 report we also recommended that FHA's authority to invest its funds in Government securities with Treasury approval be continued. It was pointed out that FHA engages in extensive purchases in United States Government securities for income purposes. This is extraneous to the basic function of FHA.

We might add while it provided income to the FHA, some of the debentures that were sold were tax exempt and since 1941, tax-exempt debentures of the Government have not been available, so in this case as a possibility that there was a loss of some income tax to the Government through this operation.

In the 1952 report we recommended to the FHA Commissioner changes in the method of charging fees in order to cover the cost of processing applications and also recommended action be taken to make certain adjustments on premium refunds involving excessive work.

But this is not peanuts; there is involved approximately \$2 million and we think that this recommendation, if given consideration, would save that much money.

Our above recommendations and suggestions reflect the substantive findings in our audit—but beyond all this is the day-to-day assistance afforded the FHA by our people on the job in trying to strengthen operations of that agency.

With respect to the so-called mortgaging-out abuses under Section 608 of the National Housing Act, it appears from the information now available to the public that the FHA, to put it charitably, guessed in appraising the estimated costs of many projects.

CHAIRMAN. You say, "To put it charitably." Could you put emphasis on that?

KANE. As pointed out in our report, there was lack of a strong adequate appraisal system.

CHAIRMAN. There was no set policy, was there?

KANE. There was a policy but obviously it was not strong

CHAIRMAN. Did each appraisal use a different system and a different method? Rather each office?

pleted, have an understanding as part of the contract, that the amount will be adjusted to 90 percent, or 95 percent, whatever the law is, of the actual cost?

Mr. KANE. The Comptroller General would heartily endorse such a proposal.

The CHAIRMAN. Is there anything impractical about it from a working standpoint?

Mr. KANE. I can conceive of none. Mr. Newman, can you?

Mr. NEWMAN. No.

Mr. KANE. It will mean more audit work on the part of somebody.

The CHAIRMAN. Would you be satisfied with the builder simply coming in with an affidavit which he files with the—

Mr. KANE. Not unless it was prepared by reputable—we would prefer a CPA.

The CHAIRMAN. If he came in with a CPA's statement and he filed an affidavit that it was true to the best of his knowledge, just like you file an Internal Revenue Service tax return, if you are found cheating you are subject to prosecution.

Mr. KANE. One additional thing that should be considered would be that the FHA in order to police that, to be sure that advantage isn't taken, is that FHA be given authority to examine the books of contractors. Not with the view of examining each one but having the authority to make selective tests, and the General Accounting Office, of course, in our normal audit process would see whether or not they are performing that function satisfactorily.

We heartily endorse the certificate suggestion.

The CHAIRMAN. You are again saying that in your visiting with these offices and your contact with this business you never heard anybody else say, either in Government or industry, that it was intended that they were to make a profit on these section 608's?

Mr. KANE. I have never heard that.

The CHAIRMAN. Mr. Newman, you have never heard that?

Mr. NEWMAN. No.

The CHAIRMAN. We are hearing a lot about it today, I'll say that.

Mr. KANE. We feel that the certificate approach should be applied across the board in all the titles, including title II, insofar as it applies to mortgages on proposed construction, as distinguished from mortgages on existing structures.

There is one other provision of the bill, title VII, which provides for a program of planned public works.

We feel with respect to that, that it should be tightened up, because in 1947, under the War Reconversion Act, there was advance planning program and we have observed that there were certain abuses under that act, and that there have been disputes as to the conditions under which the local bodies who received the funds would be required to return the advance to the Government.

We definitely feel that although this could be handled by regulation, once again it is always best to have stipulations in the act, itself, because then it obviates any administrative interpretations of the intent of Congress.

Senator BRICKER. Were those abuses that you noticed in the other act of that character? Were the abuses you mentioned in the military act of the same character?

One is section 224 of the proposed bill which provides what is called the open-end mortgage. Without directing anything toward the merits of that type of legislation, I would like to call to your attention the fact that the open-end mortgage could be used to finance some of the things you have under your title I organization loans, and if the mortgage period under the open-end method could be 10 years, or 5, 6, 7—

The CHAIRMAN. Let me ask you this: What is it you can do under the open-end that you can't do under title I? Why can't you do everything under title I that you can do under the open-end mortgage?

Mr. KANE. I haven't analyzed that, Mr. Chairman, but there is one thing that did hit us when we looked at the bill hurriedly. We realized that the modernization loans, which could include your barbecue pits, could be financed in 10 years, and that might be too long.

The CHAIRMAN. Under the open-end mortgage, you could improve your property and make it a part of the mortgage and the Government or the lender would have a mortgage on the property, whereas under title I, of course, the Government does not take a mortgage on their loans.

Mr. KANE. That is right, but we think the bill might be strengthened in that regard to make the type of improvements more substantial than the barbecue pits and other types that have been mentioned this morning.

The other section, 221, which provides for \$7,600 homes, has a 10-year amortization period. cursory examination has raised in our mind the question of whether or not at the end of 20 years that the Government will not be forced into issuing debentures with respect to this type of construction. Forty years is probably one of the longest amortization periods provided in any of the Government housing programs.

The CHAIRMAN. Say that again.

Mr. KANE. Under section 221, it provides for an amortization period for a maximum of 40 years. What occurred to us to raise with the committee was that since the maximum on a house would be \$7,600, the thing that came to our mind is whether or not the quality of the house at today's cost—

The CHAIRMAN. To last for 40 years, you mean?

Mr. KANE. Yes. We think it is a serious question, because the Government 20 years from now may have a lot of houses on its hands.

Section 221 also provides for the operator-builder, in financing new units—this is on an estimated cost basis and we may have the same trouble with that section.

The CHAIRMAN. Is there any reason to believe that you will have the same troubles?

Mr. KANE. We feel it is always best if you can anticipate something, it is best to try to close the door before the horse gets out than afterward. I am not saying definitely it will happen but there is the possibility and consideration might be given to it.

The CHAIRMAN. You are in the accounting business and you are with the General Accounting Office. Is there anything particularly complicated about the suggestion I made 2 or 3 times here, that the FHA go ahead and appraise these buildings and say, "We'll give you a mortgage on X amount," and then when the project is com-

pleted, have an understanding as part of the contract, that the amount will be adjusted to 90 percent, or 95 percent, whatever the law is, of the actual cost?

Mr. KANE. The Comptroller General would heartily endorse such a proposal.

The CHAIRMAN. Is there anything impractical about it from a working standpoint?

Mr. KANE. I can conceive of none. Mr. Newman, can you?

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Mr. KANE. No, Senator, that wouldn't be the same thing. These were advances to local bodies.

Senator BRICKER. What were the abuses you referred to in the other act?

Mr. KANE. Some of the funds were used for unauthorized purposes. The money would be advanced to plan, say, a bridge, and by the time the plans got finished, the plans were not for a bridge but maybe for a park.

Senator BRICKER. Have you noted any of that kind of discrepancy in the use of funds under this bill, except those in regard to repairs?

Mr. KANE. Senator, I am sorry, I don't quite get your question. We are talking about two different programs.

Senator BRICKER. I know we are, but you mentioned the use of funds authorized for purposes other than which they were granted, in the other bill.

In this present program of FHA, have you, in your investigation, noted the use of funds for purposes other than that which they were intended to be used for, except in the repair and rehabilitation program?

Mr. KANE. No, Senator.

Mr. Chairman, you indicated to us that you wished certain information with respect to the status of the title I defaulted notes, and the number.

Now, Mr. Newman has that information.

The CHAIRMAN. What we wanted, I think, was the total number as best you could ascertain, of the loans in default and other statistical information that you might have. Mr. Newman, why don't you give it to us, please?

Do you want to read it?

Mr. NEWMAN. I have before me, Senator Capehart, the information you requested.

1. The insuring and policing procedures of FHA, under title I insurance funds.

2. I have a summary of the number and amount of outstanding loan balances of private lending institutions insured by FHA under section 2, title I, and the number and amount of loans where installments are delinquent 90 days or more. The most recent report issued was that of March 31, 1953. Under loans outstanding, there were in number 3,547,845, for a total of \$1,394,430,000. The delinquents, 90 days or more, the number is 49,850.

The CHAIRMAN. Of 90 days or over?

Mr. NEWMAN. Yes. That is $1\frac{1}{4}$ percent of the 3 million figure I just read.

The CHAIRMAN. Three million outstanding loans.

Mr. NEWMAN. The number of loans. The amount of delinquents total \$18,162,000.

The CHAIRMAN. Those are 90 days old.

Mr. NEWMAN. Ninety days old, on the records of the lending institutions.

The CHAIRMAN. They are not necessarily turned back to the Government for collection?

Mr. NEWMAN. Not as yet, Mr. Chairman.

The CHAIRMAN. Well, that is as of March 31, 1953.

Mr. NEWMAN. Yes, sir.

The CHAIRMAN. That is a year ago.

Mr. NEWMAN. That is a year ago. You see the other reports are in process for 1954 now.

The CHAIRMAN. I wonder if FHA keeps a record so they could tell us up to the minute what the number is.

Mr. NEWMAN. I believe they could get that information for you as of March 1954.

The CHAIRMAN. Mr. Frentz, can you tell us at the moment the corresponding figures to those?

Mr. FRENTZ. No, sir. In this sense. There is an annual call report we ask of all banks each year. The call report has gone out and it is now coming back and is being tabulated.

The CHAIRMAN. When will that report be available?

Mr. FRENTZ. In about a week or a few days. Let's say by the 1st of May, I believe.

The CHAIRMAN. In other words, you are saying that by May 1 you can give us the same statistics that Mr. Newman has just given us?

Mr. FRENTZ. I believe so.

The CHAIRMAN. As of what date?

Mr. FRENTZ. The same date, March 31.

The CHAIRMAN. Within a week or 10 days we will know how many loans are 90 days old or older that are delinquent and the total number of loans and the outstanding total amount. (See p. 1731.)

Mr. FRENTZ. Yes, sir; I think so.

The CHAIRMAN. Thank you, sir.

Senator BRICKER. Do you know how many have been turned back to the Government within the past year, or turned over to the Government?

Mr. FRENTZ. I have a record here.

The CHAIRMAN. Suppose you go back and figure that out and we will get it in just a moment. Then we will have it exactly right.

Suppose you proceed then, Mr. Newman.

Mr. NEWMAN. There is one fact, Senator. In studying this statement which I will leave with you you will notice that since March 31, 1949, there has been an increase of over 1 million loans outstanding on the books of the lending institution, that the percent of the number of loans delinquent has decreased about two-tenths of 1 percent, and that the amount of the delinquent loans has decreased six-tenths of 1 percent.

To say it another way, there was at March 31, 1949, \$810 million worth of loans outstanding, and \$15 million was delinquent as compared with March 31, 1953, of \$1,394 million outstanding, and \$18,162,000 as delinquent.

In other words, to summarize, it appears that there is a lot more business today, but the collection endeavors of FHA are beginning to show results.

The CHAIRMAN. It looks as though the loss ratio is quite small.

Mr. NEWMAN. That's right. Over the past 5 years, Senator, it has averaged—in 1949 it was 1.9; in 1950, it was 1.9; 1951, 1.6; 1952, 1.4; and 1953, 1.3.

The CHAIRMAN. Those are the losses to the Federal Government?

Mr. NEWMAN. No; these are the delinquents on the books of the lending institution.

CHAIRMAN. What has been the actual loss to the Federal Government in those same years, do you have that?

NEWMAN. Yes, sir, I have.

FRENTZ. While he is looking for that, do you want my figures?

CHAIRMAN. Yes.

FRENTZ. The claims for the year of 1952, there were 37,470, for \$,000.

CHAIRMAN. That was claims turned back to the Federal Government?

FRENTZ. That's right.

CHAIRMAN. How many?

FRENTZ. 37,000, and \$14,900,000.

CHAIRMAN. You turned those over to the Attorney General's collection?

FRENTZ. Oh, no.

CHAIRMAN. What do you do with them?

FRENTZ. I would like to take a minute, if I may.

CHAIRMAN. You may proceed.

FRENTZ. When these accounts come in to us, we have a collection are established, the first thing we do is examine the file to find out the reason for the default. Then, we take up our efforts. If it is the case of a man who lost his job, if it is marital troubles, we then know what to do.

CHAIRMAN. Where does your first letter go, from here or the office?

FRENTZ. My office.

CHAIRMAN. At the moment, you have 37,000 of those?

FRENTZ. That was last year. We write these folks a letter say—

e now the holder of your note. Will you care to make your payments? We would like to have you make it in full, full payment, or in partial

come back then and give us a collection plan that they are able to. Let us say that the lending institution has been endeavor to collect \$25 a month. We obviously know that we would not be claim if those people could pay \$25 a month. Therefore, they come back and say that "We can only pay you \$10 or \$15 a month," we will work with those people and accept that payment. As they pay, every so often we will write them a letter endeavor to raise those payments so they can be debt-free. Our job is to get them out of debt.

CHAIRMAN. At what point do you turn them over to the Attorney General?

FRENTZ. In the event we cannot do that, our next step is to send them out to our field offices and that is where our field offices do the play. We have, at the present time, at the suggestion of the General Accounting Office a couple of years ago that they increase their staff. We did increase our field staff. If I recall, it was 1950 when we changed them from 25 to 70. If he cannot collect by correspondence, which, of course, is the cheapest way—

CHAIRMAN. Then you send them to the field office and have them go to see them personally?

FRENTZ. Yes.

The CHAIRMAN. Then, what do you do?

Mr. FRENTZ. Then it comes back to Washington. It has gone pretty well through our various procedures. We have determined whether or not that borrower has the capacity to pay but simply won't. Let's say he is a "deadbeat" to use the term of the street. We then refer it to the Department of Justice to take legal action.

The CHAIRMAN. In the final analysis the Federal Government becomes the collecting agency on all these accounts?

Mr. FRENTZ. That's right.

The CHAIRMAN. So, the banks really, they have no responsibility at all to collect them?

Mr. FRENTZ. Let me say this, sir. On the loans that the banks have made, they have done a tremendous job of collecting. Otherwise, we would have more than this 1 percent claim. If they were bad lenders and collectors, they would have 5 or 10 percent claims. But, overall, the banks have done a wonderful job of collecting.

The CHAIRMAN. Thank you.

You may proceed, Mr. Newman.

Mr. NEWMAN. Mr. Chairman, just to give you an indication of what really has happened in the last 5 years, on the claims paid by the Federal Government—and please keep in mind that this program is expanding, as indicated in my previous statement, about the outstanding balances alone having increased. In 1949, the claims totaled \$17 million. In 1950, they totaled \$19 million.

The CHAIRMAN. Those are the losses?

Mr. NEWMAN. These are the claims paid by the Federal Government.

The CHAIRMAN. Paid to the banks?

Mr. NEWMAN. Paid to the banks, that's right. They are not losses at that point.

The CHAIRMAN. So the Attorney General may be able to collect them?

Mr. NEWMAN. And FHA has collected about 50 percent of those on the average.

In 1951—

Senator BRICKER. Those are paid by debentures, are they not?

Mr. NEWMAN. No; these are cash on the barrelhead.

The CHAIRMAN. You possibly can't answer this, but at what point can a bank turn back the bad account? Mr. Frentz, at what point can they turn back this bad account?

Mr. FRENTZ. We require that the banks employ a very aggressive collection effort, and I believe the claims show that. Now, we allow the bank 6 months to follow this collection. We also have provisions in our regulations that if at the end of 6 months they still feel that customers can pay if they work harder on it, a proviso whereby they can request an extension from us—

The CHAIRMAN. Is there any contractual relation between you and the bank requiring them to put forth any effort whatsoever to collect?

Mr. FRENTZ. Yes

The CHAIRMAN

Mr. Frentz

The

record.

can r

it?

ulations, sir.

and point for us to put right in the
re the bank to do before they
ment. Without objection

will place that in the record at this point. You get it if you will, use, and give it to the reporter.
The information requested follows:)

SECTION EFFORTS REQUIRED OF INSURED FINANCIAL INSTITUTION PRIOR TO FILING CLAIM FOR LOSS UNDER TITLE I CONTRACT OF INSURANCE

Present requirements for filing claims under title I

The rights of a financial institution holding a contract of insurance with the Federal Housing Commissioner under title I of the National Housing Act are governed by the terms of such contract of insurance. The terms of its contract of insurance consist of applicable provisions of the National Housing Act and the Title I regulations which are specifically made a part of the contract. The applicable sections of the regulations are as follows:

"REGULATION XI

2. Claim after default.—Claim may be made after default provided demand has been made upon the debtor for the full unpaid balance of the note."

"REGULATION VI

7. Collections.—The insured is required to service loans in accordance with acceptable practices of prudent lending institutions. In the event of default, insured should have adequate facilities for contacting the borrower and otherwise exercise diligence in collecting the amount due. The insured is responsible to the Commissioner for proper collection efforts even though actual collection may be performed by an agent."

It should be noted that regulation VI, section 7, sets a general standard. The specific requirements are that the loan be in default and that a demand has been made on the debtor for the full unpaid balance.

Attention should also be called to regulation III, section 1, which requires that the note represent a valid and enforceable obligation. If there is doubt on this point an insured is required to furnish additional evidence of enforceability. In some cases it is required to obtain a judgment against the borrower.

Authority under the National Housing Act to make further requirements

Section 2 (a) of the National Housing Act (12 U. S. C. 1703 (a)) authorizes the Commissioner to grant insurance to financial institutions "upon such terms and conditions as he may prescribe." Under this authority the Commissioner is undoubtedly empowered to prescribe such additional requirements as to collection efforts prior to filing claim as he may consider necessary or proper.

Practice and procedure with reference to collection efforts by insured financial institutions prior to filing claims for loss

It has always been the policy of the Federal Housing Administration to encourage financial institutions to pursue collection efforts aggressively. General instructions to insured institutions on collection practices are set out on page 1 of the explanatory material in the booklet of regulations, FH-20, issued December 31, 1953. Copy of such instructions is attached.

The Title I Division has a section whose principal responsibility is to contact insured financial institutions, to review their operations, and to point out to such financial institutions any deficiencies in their collection practices and policies. This section has five financial representatives who travel throughout the country making visits to insured financial institutions, particularly those whose records indicate that their collection practices are not adequate, and surveying their operations. In making title I surveys the collection program is one of the principal phases to which the financial representative gives attention.

It is the practice to ascertain the number and dollar amount of loans delinquent, strike a delinquency ratio, and compare the delinquency with prevailing averages. It is also the practice to determine the average amount due on delinquent accounts, and whether that average is consistent with the average amount of other accounts held by the bank. The date of latest payment on delinquent accounts is noted, and it is ascertained to what extent the accounts are active or whether they represent potential claims, and determination is also made as to whether refinancing appears to be in order.

The whole loan file is reviewed from the collection angle and all the data therein is analyzed, determining whether the collection effort is adequate or inadequate. It is required by FHA that each lender have a definite satisfactory collection policy. The financial representative first reviews the policy and then determines whether or not the policy is being carried out. The following factors are taken into consideration as representing a satisfactory collection policy and effort.

1. An aggressive collection effort during early stage of default.
2. The utilization of the services of an outside adjuster.
3. The practice by the bank of requesting FHA for additional time in which to file claims where appropriate in order to permit the bank to continue collection efforts.
4. The use of refinancing privileges provided by the regulations, when warranted.
5. The use of legal action, as indicated.
6. Special handling of first payment defaults in order to get the account on a regular paying basis.

If any of the element named above are lacking the lender is counseled or directed as to their utilization, when warranted.

In the final conference by the financial representative with the president and other high level officials of the financial institution the collection phase always is reviewed and discussed fully with the view to improvement of the operation if possible.

EXCERPT FROM PAGE 13 OF EXPLANATORY MATERIAL—INSTRUCTIONS ON COLLECTIONS

"COLLECTIONS

"An insured lending institution is expected to pursue an aggressive policy in the collection of title I loans. In carrying out such a policy it is suggested that use be made of form notices, dictated letters, telegrams, telephone calls, and personal contacts. A system of form notices should be established which calls for automatic followup, such as, the 5th, 10th, and 15th days after default occurs. If these notices do not produce results, the account should receive special handling. The use of the telephone is strongly recommended for inside collection and if results are not obtained the borrower should be personally contacted by an outside collector. Every effort should be made to discover the reason for default and to effect reinstatement of the account. It is of the utmost importance to keep in close contact with the borrower when his note has become delinquent. Constant followup is essential to a successful collection program.

"In the case of recalcitrant borrowers who have the ability to pay, and the facts of the transaction warrant, the lending institution should consider the advisability of instituting legal action. Ample provision has been made in the regulations to reimburse the lending institution for the expense which will be incurred in legal proceedings.

"In furtherance of a collection program, lending institutions are urged to consider refinancing delinquent loans, within the limits prescribed by the regulations, over a longer term with smaller monthly payments where borrowers due to illness, unemployment, or other legitimate reasons are unable to meet the schedule of payments called for by their note. If refinancing is not practicable, lending institutions may request an extension of the 6 months allowable claim period for the purpose of carrying the account delinquent for a longer time, in order to work out a satisfactory plan of liquidation.

"It is not necessary for a lending institution to report paid in full class 1 and 2 loans to the Federal Housing Administration."

Senator MAYBANK. Who checks the bank?

Mr. FRENTZ. We have a small staff of what we term financial representatives.

Senator MAYBANK. Senator Capehart and myself discussed this thing on Saturday. Can they do it?

Mr. FRENTZ. To the best of their physical ability.

Senator MAYBANK. Would you believe that most of them were checked?

Mr. FRENTZ. We have attached to my office 5 financial representatives to service 5,000 lenders and 4,000 branches.

The CHAIRMAN. Is there any connection between these bad accounts and alleged misrepresentation on the part of the salesman or the dealer who sold the bill of goods? Has anybody ever analyzed it from that standpoint? I mean are these bad accounts——

Mr. FRENTZ. I do not follow you, sir.

The CHAIRMAN. Let me start all over again. Is there any relationship between the bad accounts and misrepresentation on the part of the dealer who sold the homeowner the goods?

Mr. FRENTZ. Yes.

A number—I don't know how many, but some of these accounts that we have paid as claims, are the result of this overselling.

The CHAIRMAN. You don't know what percentage?

Mr. FRENTZ. No; it is very small.

The CHAIRMAN. Is there any way to find out? You haven't kept any such record?

Mr. FRENTZ. It is a very small percent because I come back to the day when our men go around and call on these people, they find that in most of the cases it is marital troubles, sickness, death, and the usual failings of the human being.

Senator MAYBANK. Will the Senator yield further: As I understand the General Accounting Office, you have no laws giving you authority to do anything except to check these things, and that is all.

Mr. FRENTZ. That's right.

Senator MAYBANK. And, you have 5 people to check 9,000 accounts. I have always appreciated what the General Accounting Office has done. How can you do it?

The CHAIRMAN. Weren't you authorized originally, and still authorized, to use 35 percent of your income for collections?

Mr. KANE. Mr. Chairman, for the record, the gentleman who is speaking now is not an officer or employee of the General Accounting Office. He is a representative of FHA.

The CHAIRMAN. Yes; I understand that. We know that. But, my point is, weren't you authorized to spend 35 percent of your income?

Mr. FRENTZ. You are asking me a question that is not in my province. Perhaps Mr. Kane could clear that up.

The CHAIRMAN. Is there anyone present who can answer that statement and say that that statement I just made is, or is not, true? Mr. Greene, can you answer that? Is that correct?

Mr. GREENE. I'm sorry, but I did not hear the question.

The CHAIRMAN. Weren't you authorized to spend 35 percent of your income premiums on title I, or was that knocked out of the appropriations?

Mr. GREENE. Senator, we were authorized—as Senator Maybank will remember as chairman of the committee at that time—in 1949, a flexibility provision in our appropriation.

Senator MAYBANK. Senator Maybank voted not to knock it out, but it was knocked out in the appropriations bill. But, I did not vote that way.

Mr. GREENE. We had the flexibility, but it was only provided for the nonadministrative expenses. It has never been devoted for the administrative expenses.

Senator MAYBANK. Most of your legislation on those authorities was knocked out at the same time.

Mr. GREENE. It served us for a year and a half, as I recall, from 1949 to 1950. The Appropriations Committee then put a limit.

Senator MAYBANK. The Subcommittee of Appropriations for Independent Offices.

Mr. GREENE. The Appropriations Committee put in a limit, and we have had the limit ever since; so flexibility has not been available to us.

Senator MAYBANK. I heard that this morning, and I didn't want to interfere at the time, but it was knocked out in the Senate Appropriations Committee. No; I beg your pardon. It was in the House committee, and it came to the Senate, and we could not get it restored.

Senator LEHMAN. Mr. Chairman, may I say one thing: Just for the sake of the record, I want to make my understanding clear that the figures you have read of the amounts paid by the Federal Government to the lending institutions for the years 1949, 1950, 1951 and 1952—I think you still have the year 1953—do not represent losses to the Federal Government, but those are merely the amounts that the Federal Government paid to the lending institutions, but the premiums that the Federal Government got for this work has more than counter-balanced the amount that was paid to the lending institutions, is that correct?

Mr. NEWMAN. At this point it is, sir.

Senator LEHMAN. I want to emphasize that because I think it is very important that people realize this, that whatever the losses or the disadvantages that may have been practiced on the homeowners, under title I, or under section 608—and I think they made those hardships, or losses, perhaps very substantial—there has been no loss so far as I can see, to the Government of the United States in this program.

I think it is awfully important that that point be kept clearly in mind in the consideration of this whole subject.

Senator MAYBANK. Mr. Chairman, may I add something?

The CHAIRMAN. Senator Maybank.

Senator MAYBANK. I thoroughly agree with the distinguished Senator from New York, but the trouble about it is, the people who rent the houses, or the consumers, Senator, are paying for it. The banks can't lose much, the Government can't lose, as of yet, with this 9.8-percent interest I think it amounts to.

Mr. NEWMAN. It is 9.7 percent.

The CHAIRMAN. Well, it has been a very fine operation for the dealers, the banks, and so far the premium that the Federal Government has charged has been sufficient to take care of the losses.

Mr. NEWMAN. I can give you more figures to indicate just what you have said.

The CHAIRMAN. You may proceed.

Senator MAYBANK. But, Mr. Chairman, the Federal Government has not put

Federal money in by taking repairs money. The people put the money up. The Federal Government put up insurance. The people put up the money. I say "consumer," I mean the people put up the

Mr. NEWMAN. Well, the people who have the insurance pay it, naturally, on the loan, and the premium is in there. The lending institutions pay the FHA.

Senator MAYBANK. The Government has lost nothing, it is only the people paying 9.7 interest.

Mr. NEWMAN. If they lose it; yes.

The CHAIRMAN. It has been alleged that a lot of property owners have been taken advantage of, fleeced, and so forth—I shall not use all the adjectives. That seems to be the problem confronting this committee, in consideration of this proposed bill. How could we tighten the law, how can we tighten the administrative procedure to make certain that the public or the property owner, or the borrower—what misunderstandings are kept down to a minimum? That is what we are trying to do. There is no question but what up to this time his program has been financially successful for everybody concerned, unless it be the property owner, and that we have no information on. It is alleged that they have been fleeced out of millions and millions of dollars. I don't know whether it is true, or not. That has been alleged. That is our problem and that is our interest. How can we avoid, and eliminate, reduce to a minimum, the property owner—let's put it bluntly and frankly—being taken advantage of by salesmen and dealers and bankers and others. That is our problem and we are trying to find out how we can do it. Can it be done by changing the law, can it be done by better administrative procedures, or is it going to take a combination of both?

Mr. NEWMAN. Mr. Chairman, I believe it will take a combination of both. I think FHA, since we first started our audit back in 1949, has made marked strides in improving its collection, and also in its lending, and they have been able to put into effect, as we have heard from Mr. Hollyday, certain regulations which have merit. As a matter of fact, Mr. Chairman, I think those regulations, if they are put into effect, certain ones of them, deserve consideration by the committee. It may be that you may want to put them into law.

The CHAIRMAN. It may be you will want to make them law.

Mr. NEWMAN. And then they will be permanent.

Senator MAYBANK. And then another administrator couldn't change the rules. It would be the law.

Senator BUSH. How many lending institutions have had a loss of more than 10 percent in connection with this title I program?

Mr. NEWMAN. I cannot answer that question.

The CHAIRMAN. Can you answer that, Mr. Frentz?

Mr. FRENTZ. I guess the answer is none. I can't conceive of any.

Sir, there have been some. I cannot give you offhand the exact number going back into time. Where we do have difficulty is where lender in a country bank, for example, will make a few loans, will have 1 loss, and that will take his 10-percent reserve. We have a list, for example, of lenders who since 1950—we started our new reserve operations—there are 70 on that list who have a minimum ratio of over 2 percent—70 banks out of 5,000 who have a claim ratio of over percent. I do not believe that any are over 4 or 5 percent.

Senator BUSH. Could you tell me what the gross income from insurance premiums on title I insurance was in the last fiscal year? I don't know whether you operate on a calendar, or the Government fiscal year.

Mr. NEWMAN. It is on a fiscal year, June 30.

Senator BUSH. What would be the figure for insurance premiums earned?

Mr. NEWMAN. Of \$16,640,566.

Senator BUSH. \$16 million.

Mr. NEWMAN. Almost \$17 million.

Senator BUSH. That is the gross take, the total income that the Government has under title I?

Mr. NEWMAN. That's right.

Senator BUSH. What were the expenses?

Mr. NEWMAN. The expenses as reported by the company totaled \$9,485,000, leaving a net income before reserves, of \$7.8 million, or practically \$8 million.

Senator MAYBANK. Mr. Chairman, did you have those things put into the record?

The CHAIRMAN. I think all the records that Mr. Newman has will go in.

Mr. NEWMAN. These documents will be left with you, Mr. Chairman.

The CHAIRMAN. Without objection, all the statistics, facts, and information that Mr. Newman and Mr. Kane have, will be made a part of the record.

(The documents referred to follow:)

FEDERAL HOUSING ADMINISTRATION

TITLE I—INSURANCE FUND—INSURING AND POLICING PROCEDURES—JUNE 30, 1953

Under title I, section 2, of the National Housing Act, as amended, the Commissioner is authorized and empowered to insure banks, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, and other such financial institutions, which he finds to be qualified and approves as eligible for credit insurance, against losses which they may sustain as a result of eligible property improvement loans. Application for contract of insurance (form FH 21) is completed by the lending institution and presented to FHA, Office of the Assistant Commissioner, title I, who acts upon the approval.

For each insured institution, the Modernization Control Section of the Comptroller's Division establishes a reserve equal to 10 percent of the aggregate amount advanced by it on eligible loans. This is the maximum liability of FHA permitted under the act. Any claim paid to the insured is deducted from the reserve. On January 1 and July 1 next following 30 months after the issuance of a contract of insurance, the amount of insurance reserve to the credit of the insured is adjusted by carrying forward into the next semiannual period four-fifths of the unused reserve outstanding on each such date. Adjustment of the reserve thereafter is made in like manner at the beginning of each subsequent semiannual period as long as the contract remains in force. The adjustment has been determined to be equitable based upon analyses made by FHA which disclosed that the average life of loans under this section approximates 30 months.

Each individual loan must be reported on a "loan report" to the Commissioner within 31 days following the date of the note or date of note purchase and is accepted by him for insurance relying upon the certification of the institution that the loan was made in accordance with the provisions of all applicable regulations. The regulations provide for an insurance-premium charge of three-fourths of 1 percent per annum of the net proceeds of the insurance loan, except that the charge is one-half of 1 percent per annum on loans maturing in excess of 7 years. The computation of the insurance charge is made by the Modernization Control Section upon receipt of loan reports, and billing is made to the institution at the end of the month for all loan reports received during the month. This section also examines the information contained in the loan reports for compliance with the regulations. Insured loans must have a minimum life of 6 months, but the maximum for repairs and alterations of single family homes may

be made for periods up to 3 years and 32 days. Insurance may also be granted for as long as 7 years and 32 days for the repair or conversion of an existing structure used as an apartment house or a dwelling for two or more families, or for the construction of new structures for agricultural purposes. When secured by a first mortgage or similar lien, the final maturity may not exceed 15 years and 32 days from the date of the note.

FHA collects the premium charge in advance for loans maturing up to 3 years, 32 days. For loans maturing in excess of this period, the premium is collected in installments, the first of which covers a charge for 3 years, and all subsequent installments cover a charge for 1 year payable on the first and each succeeding anniversary following the date of the note. Billing and collecting insurance premiums for renewals are controlled and conducted by the Receipts and Deposits Section of the Comptroller's Division.

Claim for reimbursement of loss on an eligible note may be made to the Commissioner at any time after the note is in default and written demand has been made upon the borrower for payment in full of the obligation. Claim for loss must be filed within 31 days when any full installment has become in default for 6 months, unless an extension of the allowable claim period has been granted by the Commissioner. The claim must be filed with all the data, records, and correspondence in the hands of the insured, pertaining to the claim. Examination for its payment or denial is made by the Modernization Control Section, which also prepares and certifies vouchers in payment of the claim.

Recovery activities on title I defaulted accounts are supervised and controlled by the Office of the Assistant Commissioner, Title I Division. Initial collection efforts are made by the Washington office by correspondence with the borrower. If such action is not productive, the matter is sent to field offices where direct contact is made with the debtor by field collection personnel. The Liquidation Section of Title I Division also develops recommendations for transfer of the account to the Department of Justice for collection, for settlement of accounts by compromise, or to declare the accounts uncollectible.

The following are some of the safeguards used by FHA in minimizing losses under title I insurance:

In approving the lending institution for insurance coverage, FHA screens the applicant corporation for its ability to make loans, service, and collect them. FHA requires independent audits to be made and submitted by accountants satisfactory to the Commissioner at least once in each calendar year of the books of the insured corporation, if it is not subject to inspection and supervision by a governmental agency. The Administration sends to the insured letters, pamphlets, and copies of regulations for its instruction in handling title I loans. It also sends field or headquarters representatives to the insured to institute operating procedures for such loans.

Whenever claims approach 2 percent of the loans insured, FHA inspectors contact the claimant corporation, review its loan portfolio, and either arrange to have abuses corrected or recommend termination of the contract of insurance.

FHA has expanded its field collection staff to effect more aggressive collection policy. In the Washington office, FHA maintains a skip-tracer staff to locate borrowers who have moved without giving information of their new whereabouts.

A list of unscrupulous dealers is maintained by the Administration. Information of this character is forwarded to all insured institutions. The institutions are warned to avoid these dealers and to make such checks of new dealers as are consistent with good business management. The regulations require the insured institution to have a file on each dealer with whom it does insured loan business, such file to contain approval of the dealer, and supported by information as to his reliability, financial responsibility, qualification to perform the work satisfactorily, and servicing ability.

Occasionally FHA will receive a report that a dealer has committed an irregular or unethical act in connection with a title I transaction. Such advice usually comes in the form of complaints filed by homeowners. These complaints may be relayed through lending institutions or received direct by FHA. All complaints are investigated by FHA field personnel or, in some instances, by the lending institutions involved. Any dealer whose operations are found to be contrary to the standards and requirements of the title I program is placed on notice that restrictive administrative action will be taken unless the deficiencies are corrected. If the dealer fails to cooperate, all insured lenders are notified that future business originated by the particular dealer will be acceptable for

insurance only if the lending institution takes certain precautionary steps, such as verifying credit information, having the completion certificate signed in the presence of an employee of the institution, and making an actual inspection of work performed on larger loans. Experience has shown that such action almost invariably has had the effect of protecting homeowners from further abuses on the part of the dealer involved.

Further, the dealer is required to certify in his completion certificate that the borrower has not been given a cash bonus or promised a cash payment or rebate, nor has it been represented to the borrower that he will receive a cash bonus or commission on future sales as an inducement for the consummation of the transaction. The dealer must also certify that all bills for labor and material have been or will be paid, and that if any of the representations appearing on the completion certificate prove incorrect, the dealer will promptly repurchase the note.

FHA uses many means of offset available to it. Where known, offset against any moneys due the borrower by any other branch of the Government is requested. Such agencies as the Civil Service Commission, Veterans' Administration, and Defense Establishments have been instrumental in reducing losses on FHA claims.

Summary of number and amount of outstanding loan balances of private lending institutions insured by FHA under sec. 2, title I; and number and amount of loans where installments are delinquent 90 days or more

[Based on reports of lending institutions to FHA's Division of Research and Statistics]

Reporting date	Loans outstanding		Delinquent loans (90 days or more)	
	Number	Amount	Number	Amount
Mar. 31, 1953.....	3,547,845	\$1,394,430,000	49,850	\$18,162,000
Percent.....	100	100	1.4	1.3
Mar. 31, 1952.....	3,215,091	\$1,073,513,000	42,565	\$15,356,000
Percent.....	100	100	1.3	1.4
Mar. 31, 1951.....	2,904,643	\$1,005,019,000	41,497	\$16,253,000
Percent.....	100	100	1.4	1.6
Mar. 31, 1950.....	2,728,051	\$922,582,000	47,135	\$17,583,000
Percent.....	100	100	1.7	1.9
Mar. 31, 1949.....	2,497,134	\$810,273,000	40,179	\$15,536,000
Percent.....	100	100	1.6	1.9

EXHIBIT 1.—Federal Housing Administration, combined balance sheet, June 30, 1953

	Title I		Title II		Title VI	Title VII	Title VIII	Title IX	Admini- strative expense fund
	Insurance fund	Housing insurance fund	Mutual mortgage insurance fund	Housing insurance fund	War housing insurance fund	Housing investment insurance fund	Military housing insurance fund	National defense housing insurance fund	
Combined									
Cash.....	\$55,869,798	\$56,662,362	\$310,350	\$650,452	\$4,806,152	\$57,201	\$711,763	\$471,556	\$3,293,623
Investments:									
U. S. Government securities at amortized cost—market value, \$321,044,709.....			967,209	5,001,009	78,284,665	931,910	12,750,463	11,438,491	
Accrued interest receivable.....			990	3,438	101,667	1,458	19,739	11,406	
Premiums receivable.....	344,307,134	958,199	231,832,690	5,004,417	78,338,332	953,368	12,770,201	11,449,897	
	9,852,552	6,194	1,215,813	31,622	506,326		55,991	3,971	
Assets acquired in connection with settlement of claims:									
Defaulted property improvement loans.....	49,926,575	49,926,575							
Defaulted mortgage notes (note 1).....	51,200,873			1,871,946	49,328,925				
Acquired properties (note 1).....	62,200,831	72,812	24,439	1,406,294	60,697,396				
Mortgage notes and contracts resulting from disposition of acquired properties.....	37,410,588	522,421		2,571,940	29,093,180				
Less estimated future losses (note 1).....	200,738,967	80,521,808	24,439	4,443,588	139,119,491				
	56,296,727	35,241,290	3,448	310,300	20,477,379				
Furniture and equipment, less estimated deprecia- tion of \$1,129,872.....	144,439,240	16,280,518	20,991	4,133,288	118,642,112				
Other assets.....	1,010,497								1,010,497
	890,664	28,860		27,400	443,752		17,400	4,400	70,762
Total.....	556,069,776	69,972,365	1,293,734	9,947,209	204,736,674	1,010,669	13,566,364	11,929,894	4,317,882

EXHIBIT 1. Federal Housing Administration, combined balance sheet, June 30, 1953—Continued

Liabilities	Contributed	Title						Title IX	Administrative expense fund
		Insurance fund	Housing insurance fund	Mutual mortgage insurance fund	Housing insurance fund	War housing insurance fund	Housing investment insurance fund	Military housing insurance fund	National defense housing insurance fund
Liabilities									
Accruals payable and accrued liabilities (note 1)									
Total deposits	7,226,043	729,941	296	2,106,979	108,540	1,922,299			2,356,018
Indebtedness (note 1)	7,817,793	8,969	70,847	4,747,802	70,864	981,836			981,837
Unsettled premiums and fees	76,010,795		22,850	8,408,696	1,794,000	68,786,200			
Accrued interest payable to the U. S. Treasury	60,673,870	29,073,351	172,796	24,440,435	1,214,967	12,878,867			
Interest payable (receivable)	19,996,870			16,605,604	1,368,805	1,873,621	106,019	1,423,699	672,260
Other liabilities	649,515	140,749	34	-866,067	-15,470	6,822	1,127	-2,103	4,929
					17,196	492,366			1,010,497
Reserve reserves (exhibit 2 and note 2)									
Equity of U. S. Government	184,008,322	20,092,343	275,475	55,485,222	4,567,865	86,138,020	107,146	1,835,217	1,646,062
Capital furnished by the Government (paid into the U. S. Treasury after June 30, 1953)	146,206,186			146,206,186					
Capital transferred from other FHA funds (note 3)	65,407,433	8,323,314		41,994,095	4,170,024	5,000,000	1,000,000	5,000,000	
Insurance reserves, including income (deficit) available for future losses and expenses of the separate funds (exhibit 2 and notes 4 and 5)	12,000,000	1,000,000			1,000,000				10,000,000
	146,207,812	21,070,706	20,259	3,645,549	109,320	113,598,654	-96,577	6,720,137	263,762
	223,708,246	30,310,022	1,020,259	45,670,644	5,279,844	118,598,654	903,423	11,720,137	10,263,762
Total	696,069,775	60,072,305	1,205,734	249,404,164	9,847,209	294,730,674	1,010,569	13,555,354	11,929,824
									4,317,882

Footnote: The notes on p. 1461 are an integral part of this statement.

EXHIBIT A -

	Title I		Title II		Title VI	Title VII	Title VIII	Title IX
	Insurance fund	Housing insurance fund	Mutual mortgage insurance fund	Housing insurance fund	War housing insurance fund	Housing investment insurance fund	Military housing insurance fund	National defense housing insurance fund
Income:								
Insurance premiums.....	\$16,640,666	\$292,032	\$45,837,961	\$1,466,416	\$24,452,478		\$2,268,008	\$694,832
Fees (applications, commitments, inspections, etc.)	---	147,333	11,732,847	1,231,183	23,965		1,206,754	1,546,197
Interest:								
On Government securities.....	---	23,339	5,342,087	100,730	1,862,834	21,816	274,122	127,367
Other (note 6).....	686,033	---	440,887	---	1,546,339	---	---	---
Other.....	-1,340	---	3,713	220	2,005	---	70	---
117,966,523	17,325,259	462,704	63,357,195	2,788,548	27,890,661	21,816	3,751,954	2,368,396
Expenses:								
Administrative and operating.....								
Interest on debentures (note 7).....	2,962,190	396,799	21,001,225	1,730,840	2,365,065	718	1,115,661	1,866,040
Interest on advances from U. S. Treasury.....	---	---	505,958	---	---	22,500	112,500	---
Losses on acquired assets.....	4,304,823	---	944,893	93,825	112,500	---	---	---
Provision for future losses on acquired assets (notes 1 and 4).....	2,204,860	2,790	146,944	-67,387	124,336	---	---	---
Other.....	13,671	---	-51,377	43,847	6,413,012	---	---	---
46,305,944	9,485,544	339,469	22,547,484	1,801,125	9,014,903	23,218	1,228,161	1,866,040
Net income (-loss) for the year, transferred to statutory reserve and insurance reserves.....								
	71,660,579	128,235	40,809,711	987,423	18,875,748	-1,402	2,523,793	502,366
Statutory reserve—Mutual mortgage groups:								
Balance, June 30, 1952.....	---	---	122,213,269	---	---	---	---	---
Net income for the year.....	---	---	40,148,343	---	---	---	---	---
Interest on advances from U. S. Treasury to June 30, 1952.....	---	---	16,029,308	---	---	---	---	---
Distribution to mortgagors.....	---	---	18,064,106	---	---	---	---	---
148,268,198	---	---	148,268,198	---	---	---	---	---
Statutory reserves, June 30, 1953 (exhibit 1).....								

EXHIBIT 2.—Federal Housing Administration, combined statement of income, expense, and reserves, for the year ended June 30, 1953—Con.

	Title I		Title II		Title VI	Title VII	Title VIII	Title
	Insurance fund	Housing insurance fund	Mutual mortgage insurance fund	Housing insurance fund	War housing insurance fund	Housing investment insurance fund	Military housing insurance fund	National defense housing insurance fund
Combined								
Insurance reserves (—deficit):								
Balance, June 30, 1952.....	14,194,960	-127,383	12,629,051	327,473	104,863,179	-11,656	4,515,770	1,067
Net adjustments.....	-57,967	24,407	27,468	69,403	131,157	-----	-18,305	-219,661
Interest on advances from U. S. Treasury to June 30, 1952.....			-9,632,328	-1,274,979	-1,261,430	-----	-301,121	-----
Adjusted balance.....	14,136,993	-102,976	3,024,181	-878,103	103,722,906	-95,175	4,196,344	-218,594
Net income for the year.....	7,839,715	123,235	661,368	987,423	18,876,748	-1,402	2,523,763	502,356
Statutory transfer to Title IX—National Defense Housing Insurance Fund.....					9,000,000	-----	-----	-----
Insurance reserve (—deficit), June 30, 1953 (exhibit 1).....	21,976,708	20,259	3,686,549	109,320	113,696,654	-96,577	6,720,137	283,763

1 Deduction.

NOTE.—The notes on p. 1451 are an integral part of this statement.

	Title I		Title II				Title VI			Title VIII	Title IX	
	Insurance fund, sec. 2	Housing insurance fund, sec. 8	Mutual mortgage insurance fund		Housing insurance fund		War housing insurance fund			Military housing insurance fund, sec. 803	National defense housing insurance fund	
			Sec. 203	Sec. 207	Sec. 207	Sec. 213	Sec. 803	Sec. 608	Secs. 609, 610, 611		Sec. 903	Sec. 908
ESTIMATED MAXIMUM LIABILITY OF FEA AS INSURER AT JUNE 30, 1953:												
Insurance outstanding (\$15,674,675.700)	\$250,968,500	\$68,219,500	\$9,196,088,200		\$128,562,700	\$211,174,300	\$1,842,194,300	\$3,098,797,900	\$22,656,300	\$516,312,000	\$204,211,100	\$35,490,900
Commitments outstanding (\$2,530,553,400)		\$12,168,100	\$1,873,923,000		\$99,968,400	\$98,043,400			\$2,808,900	\$123,704,100	\$330,200,200	\$29,777,300
INSURANCE WRITTEN												
Fiscal year 1953:												
Amount	\$1,114,904,600	\$27,002,100	\$2,020,724,700		\$42,484,900	\$117,077,200	\$353,300	\$8,133,900	\$1,301,600	\$105,301,100	\$195,327,300	\$27,983,900
Number	1,878,261	5,076	226,325	82	3,894	3,894	74	4	91	50	22,405	43
Fiscal year 1952:												
Amount	\$963,852,000	\$34,793,000	\$1,636,648,000		\$44,071,000	\$108,908,000		\$120,282,000	\$3,960,000	\$104,641,000	\$11,135,000	\$7,542,000
Number	1,612,271	7,299	203,874	61	1,066	1,066		107	314	74	1,235	11
From inception:												
Amount	\$6,215,391,200	\$71,400,900	\$15,658,867,200	\$14,400,000	\$268,503,900	\$254,708,800	\$3,646,228,500	\$3,439,967,300	\$41,850,600	\$521,535,800	\$206,462,400	\$35,626,400
Number	13,570,461	14,469	2,579,475	21	555	5,067	624,645	7,048	4,088	207	23,640	54
CLAIMS PENDING, JUNE 30, 1953												
Estimated amount	\$729,900	\$216,000	\$376,200	\$590,600			\$101,500	\$4,676,200				
Number	1,793	51	60	1			16	12				

Footnotes at end of table.

EXHIBIT 4.—Federal Housing Administration, summary of insurance activity, June 30, 1953—Continued

	Title I		Title II				Title VI			Title VIII	Title IX	
	Insurance fund, sec. 2	Housing insurance fund, sec. 8	Mutual mortgage insurance fund		Housing insurance fund		War housing insurance fund			Military housing insurance fund, sec. 803	National defense housing insurance fund	
			Sec. 203	Sec. 207 ¹	Sec. 207	Sec. 213	Sec. 603	Sec. 608	Secs. 609, 610, 611		Sec. 903	Sec. 908
CLAIMS PAID												
Fiscal year 1953:												
Amount.....	\$12,876,800	\$18,200 ⁴	\$1,177,100		\$301,900 ²		\$4,791,900	\$32,689,100 ⁶⁰	\$3,300 ¹			
Number.....	35,407		186									
Fiscal year 1952:												
Amount.....	\$11,285,000	\$4,000	\$2,350,000			\$1,492,100 ¹	\$4,300,000	\$31,343,000 ⁵⁵	\$32,000 ¹¹			
Number.....	32,155	¹	380				609					
From inception:												
Amount.....	\$109,985,300	\$22,900 ⁵	\$25,212,200	\$942,100 ¹	\$14,983,800 ¹⁹	\$1,492,100 ¹	\$57,269,900 ^{10,046}	\$106,036,900 ²⁴⁶	\$1,161,300 ⁷⁸			
Number.....	329,472		5,097									
SALES OF ACQUIRED PROPERTIES												
Fiscal year 1953:												
Amount.....	\$172,700		\$1,870,700				\$3,738,500	\$2,139,200 ⁴	\$600			
Number.....	40		248				479					
From inception:												
Amount.....	\$1,055,100		\$24,711,900	\$1,000,000 ¹	\$15,099,900 ¹⁷		\$52,200,100 ^{8,778}	\$6,102,800 ¹⁴	\$212,900 ⁶⁵			
Number.....	314		4,893									
LOSSES, INCLUDING PROVISION FOR FUTURE LOSSES, ON ACQUIRED ASSETS												
Fiscal year 1953:												
Amount.....	\$4,509,700	\$2,700	\$94,900		—\$22,500		\$699,700	\$5,945,700	\$1,800			
Fiscal year 1952:												
Amount.....	\$3,083,000	\$1,000	\$173,000		\$3,400	\$225,000	\$127,500	\$4,993,800	\$183,200			
From inception:												
Amount.....	\$53,263,000	\$3,400	\$3,034,600		\$13,400	\$225,900	\$4,339,200	\$17,907,500	\$633,100			

¹ Rental projects were insured under the mutual mortgage insurance fund prior to the establishment of the Title II—Housing Insurance Fund on Feb. 3, 1953.² At June 30, 1953, no insurance had been written under Title VII—Housing Investment Insurance Fund.

NOTES TO FINANCIAL STATEMENTS

[Referred to in exhibit tables pp. 1446 and 1448]

1. Certain real estate and defaulted mortgage notes which had been tendered to the Commissioner had not been officially accepted by FHA at June 30, 1953. FHA estimates that almost \$6 million in debentures will be issued upon final acceptance, segregated as follows: Title I—Housing Insurance Fund \$216,000, Mutual Mortgage Insurance Fund \$376,200; Title II—Housing Insurance Fund \$590,600, and War Housing Insurance Fund \$476,800. The accrued debenture interest at June 30, 1953, is estimated at \$53,700. When the assets are acquired, FHA will set up provisions for estimated future losses from current income at rates of 15 percent of the acquisition cost under titles I and II and 17½ percent under title VI.

2. Statutory reserve applies to mutual insurance groups and is composed of net income available for—

Contingent losses, expenses, and group account participations—	\$117,301,384
Transfer to insurance reserve—	30,966,814

Total—	148,268,198
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Prior to the enactment of the "Housing Amendments of 1953," the statutes required that an amount equal to 10 percent of the total premiums credited to the groups be transferred to the insurance reserve at termination of the group accounts. The new legislation directed that the 10 percent of premiums credited to group accounts be transferred to the insurance reserve as of July 1, 1953, without regard to termination dates. Accordingly, a transfer of \$30,593,463 was made at the beginning of fiscal year 1954. The difference between the amount transferred and the amount available for transfer shown above consisted of collected premiums which had not as yet been credited to group accounts on June 30, 1953.

3. Under authority contained in the National Housing Act, as amended, funds were transferred between certain insurance Fund accounts as follows:

From—	To—	Amount
Title I—Insurance Fund.....	Title I—Housing Insurance Fund.....	\$1,000,000
Title II—Mutual Mortgage Insurance Fund....	Title II—Housing Insurance Fund.....	1,000,000
Title VI—War Housing Insurance Fund.....	Title IX—National Defense Housing Insurance Fund.....	10,000,000
Total.....		12,000,000

4. Net income does not include a provision for future losses that may result from insurance in force at June 30, 1953. Future losses inherent in insurance operations are not recognized until properties are acquired in settlement of claims. However, FHA does retain its cumulative income as an insurance reserve.

5. FHA is not required to pay the Government's share of the cost of retirement and disability benefits which inure to FHA employees. Based on the rate of contributions applicable to agencies that are subject to such payments, FHA's contribution would be about \$1,554,500 for fiscal year 1953. If FHA were required to make such contributions, part of the cost would be charged to the mutual mortgage groups and would result in a savings to the Government.

6. Uncollected interest earned on defaulted property improvement loans and mortgage notes is not recorded as an asset on the balance sheet.

Interest income for Title I—Insurance Fund represents cash collections of interest for one year on defaulted property improvement loans. FHA does not consider it practical to accrue interest on these defaulted loans because of the uncertainty of collection and the clerical expense involved. Interest collected on notes and mortgages held by FHA under titles other than Title I—Insurance Fund is not shown as interest income but is credited to the acquired properties account.

Interest income shown for titles II and VI is imputed interest, on debentures redeemed before maturity, which has been added to the acquired properties account.

7. In the Mutual Mortgage Insurance Fund debenture interest may be charged to the Mutual Mortgage groups after the related property has been sold and final settlement made. This interest expense appears on the FHA statement as interest on debentures.

Senator MAYBANK. Why wasn't the FHA checked before 1949?

Mr. KANE. Before the GAO audited on a centralized type of audit basis. That type of audit does not go into the operations of the agency.

Senator MAYBANK. I know that, but I want it for the record. When was it changed?

Mr. KANE. It was changed in 1949, and when the agency was put under the audit of the Government Corporations Control Act. The Comptroller General endorsed that because it meant we would go into the agency and make a commercial-type audit, where we could do the operation and examine the books and records there.

Senator MAYBANK. What law gives you the right to do that?

Mr. KANE. The Government Corporations Control Act of 1945 was the basic law, but FHA wasn't put under it in the 1949 act.

Senator MAYBANK. Why did you wait until 1949?

Mr. KANE. At the time the Government Corporations Control Act was considered the General Accounting Office felt that the FHA should have been put under it, but as a matter of congressional policy it was not included.

Senator MAYBANK. What congressional policy made you do it?

Mr. KANE. I think that the Congress itself felt that there should be an overall audit, a commercial-type audit, made.

Senator MAYBANK. The Congress thought so, unless I am mistaken, in the Housing Act of 1949.

Mr. KANE. That's right. That's right. Of course, we heartily endorse that.

The CHAIRMAN. Mr. Kane, I don't suppose you have this, but does every loan made under title I, does every bank have to use the same sort of form as furnished by you?

Mr. FRENTZ. Yes, I do.

The CHAIRMAN. May I see it?

Mr. FRENTZ. Yes.

The CHAIRMAN. You may proceed, Mr. Newman, while he is getting that form.

Mr. NEWMAN. I believe I was quoting some figures with regard to claims paid. I think to sum it up, briefly, we had outstanding—we had paid claims in the year 1949, of approximately \$17 million. In 1950, it went to \$19 million. In 1952 it dropped to \$11 million, and in 1953, it is at \$12.8 million.

The number of claims paid in 1953 is 35,000, as compared to 46,000 for 1949. I think that is important to show that progress has been made and that there has been a tightening up.

Back to Senator Lehman's remark about the status of the insurance fund, we have on the books at June 30, 1953, \$50 million of claims paid. We have a reserve against the \$50 million of \$35 million, plus a surplus reserve of \$23 million. I just wanted to emphasize that for Senator Lehman.

The CHAIRMAN. I would like to ask some questions, but, Mr. Frentz, you have just handed me FHA title I credit application. That is form FH-1, revised January 1954.

The CHAIRMAN. This is the application that they make for the loan.

Mr. FRENTZ. That's right.

The CHAIRMAN. Do you furnish every lending agency with these forms?

Mr. FRENTZ. Yes, we do. We print them and furnish them. Some lenders print their own. We encourage lenders to print their own, rather than use Government-expense ink.

The CHAIRMAN. If they use this they use exactly the same wording.

Mr. FRENTZ. Exactly, but it is folded differently.

The CHAIRMAN. This is an application for the loan?

Mr. FRENTZ. Yes.

The CHAIRMAN. What sort of document do they sign when they receive

Mr. The note document.

The his judgment as to time and

Mr. FRENTZ. Yes, sir.

The CHAIRMAN. Does it remain in the lender's safe or office, or does that remain with you?

Mr. FRENTZ. It goes to the lender.

The CHAIRMAN. Do you keep a copy of it?

Mr. FRENTZ. No.

The CHAIRMAN. When do you get it?

Mr. FRENTZ. We see it on two occasions, once when we make a check with our financial representatives.

The CHAIRMAN. You don't check on 11 million of these, do you?

Mr. FRENTZ. No, but that is when we see a few of them, and another time when we see them is when a claim comes in for audit.

The CHAIRMAN. When a bank asks you to reimburse them, then they bring this to you?

Mr. FRENTZ. That's right.

The CHAIRMAN. And that is the only way. The man who borrows the money signs this. This looks like a Government document; does it not? It is a Government document. Anyone signing that would naturally, unless he was cautioned—the average person signing that would think they were doing business with the Federal Government; do you not think so?

Mr. FRENTZ. You will notice we put the warning clause in there, so that at the time they sign it they also read the warning.

The CHAIRMAN. Yes, but generally speaking anyone signing that would think they were doing business with the Federal Government; would they not?

Mr. FRENTZ. The name of the institution is in the front, on the first line. They are applying for credit to that institution.

The CHAIRMAN. But, it says—

Property improvement loans, Budget Bureau, FHA improvement loan—

Mr. FRENTZ. That heading was required by the Bureau of the Budget.

The CHAIRMAN. I understand that.

Here is a chart over here showing by dollars the amount of the interest. It says down here, "U. S. Government Printing Office." Anyone signing this, wouldn't they be under the impression they were doing business with the Federal Government?

Mr. FRENTZ. I doubt it, sir. That would be misrepresentation of the first water.

The CHAIRMAN. Well, I can't quite see it. It is Federal Government all the way through. Where does the lender's name enter into it?

In the first line it says, "This application is submitted to obtain credit under the terms of title I of the National Housing Act."

Mr. FRENTZ. Right above that.

The CHAIRMAN. Yes, I see it. And right under where you print in the name of the bank, it says in quite large type:

This application is submitted to obtain credit under the terms of title I of the National Housing Act.

What I am getting at is that it is awfully easy for these salesmen, and others who care to, to fool the public into believing that they are doing business with their Government. Every man has a right to believe that his Government is going to treat him fairly and hon-

estly and not take advantage of him. I don't know how you are going to correct it, but I think that is it.

Senator BENNETT. What does it say on the bottom?

The CHAIRMAN [reading]:

Anyone who makes a false statement or a misrepresentation in the application shall be subject to a fine of not more than \$5,000 or by imprisonment for not more than 2 years, or both, under provisions of the United States Criminal Code.

Senator BENNETT. That sounds more than ever like Government. That has the effect of warning the man who signs the note that you don't require any such signature from the dealer. There is no warning.

Mr. FRENTZ. May I answer that?

Senator BENNETT. Yes.

Mr. FRENTZ. We now require a dealer's application form.

Senator BENNETT. This is the application the dealer makes to be put on the list to the institution, to receive the lender's credit.

Mr. FRENTZ (reading):

Any person who knowingly makes a false statement or misrepresentation in this application.

But, the application simply identifies where he has done business. It is a credit plan more than anything else, that's right.

The CHAIRMAN. Well, the reason we are spending a little time on this is, as we said a moment ago, our problem is to find some way to properly warn the borrower, or the homeowner against the unscrupulous man. Let me say this, they are in, by far, in the great minority, but that seems to be our problem.

Mr. FRENTZ. This is the completion certificate which both the homeowner and the borrower must sign. That also contains a warning clause. It also carries the warranty of the dealer and the assurances of the homeowner.

The CHAIRMAN. But, this still is a Government document. One signing it would still think the Government was his protector and that he was doing business with the Government.

In other words, I see in all these forms that they sign that they think it is the Government and not the bank which is going to lend them the money or the dealer who is going to sell them the goods. They are incidental to all these forms. Their names are either typed or written in longhand into them. I think that is going to be one of our problems.

Mr. FRENTZ. There is another form now that the banker sends out saying, "We have approved your credit and we will make this loan to you," and that is that 6-day notice I referred to yesterday.

The CHAIRMAN. Do you have a copy of one of those?

Mr. FRENTZ. Yes.

The CHAIRMAN. Does that still indicate that the Federal Government is his benefactor and protector?

What is the wording of the message?

Mr. FRENTZ. Do you care for me to read it?

The CHAIRMAN. Put it over here and I will read it.

That goes on the letterhead "Advance notice to applicant for FHA title I loans." That is on the letterhead of the institution. The borrower's name, the date, the address:

ve approved your FHA application for credit in the net amount of" rth "under title I of the National Housing Act, as presented to us—dealer—

ify us immediately if you have any questions regarding the transaction.

or BENNETT. Is that before he signed the notice, or afterward?

HAIRMAN. Advance notice to applicant for FHA title I loan. l be before he made the loan, but after he made application

ll make as part of our—I don't think we will make this a part cord, this form here.

se you continue now, gentlemen.

ANE. Mr. Chairman, we have just one more matter we would mention in this bill, which was put into effect. The General ing Office recommendation in our audit report on the Fed- ings and Loan Insurance Corporation, also made under the ent Corporations Control Act, for a limitation period on rcement of claims against the Federal Savings and Loan e Corporation.

r audit of the Corporation, we feel that there is need to an certain other provisions in law to protect the Govern- interest.

ewman has a specific comment he would like to make, at this cerning it.

EWMAN. The FSLIC, as you know, insures the savings and ociations. Their present legislation has no provision like C Act has with regard to the Board being able to take action.

the Board finds that a bank, or in this case a savings and ociation, may be using unsound practices, under the FDIC Board is permitted to make a show-cause order to the insured d within a certain number of days they hold hearings and ose hearings the bank either complies with the request of or stop certain unsound practices until corrective action is else the insurance will be canceled.

FDIC has used that effectively. As of the moment, FSLIC ave that provision in its act.

e record we don't know of any particular case at the moment, feel as a precautionary measure that it is the same type of n as FDIC and, therefore, the same provision, the same au- should be given to the Board if it wants to take action against s and loan institution. You must realize that a lot of these and loan institutions are small and have to be watched closely. es they are operated by one man who owns all the stock and t. We feel that it would better protect the interests of the nent, especially in view of the guaranty we have, of \$750 mil- n the Treasury to the FSLIC—if such provision was put in o give the Board the right if they found, after hearings, that itution, this insurance, should be canceled.

HAIRMAN. Any questions, gentlemen?

ANE. Thank you, Mr. Chairman.

HAIRMAN. Senator Maybank.

Senator MAYBANK. I just want to ask the gentleman this question: The other day you thought you might be able to figure some way that we might amend this new housing bill.

Did you discuss that with the chairman before I got here? I was over in the Appropriations Committee.

Mr. KANE. Yes, sir; we discussed that.

Senator MAYBANK. You told us you were going to talk to your attorney to make suggestions on all these things. Well, have you made them?

Mr. KANE. Yes; we have made it, to this extent, Senator, that we feel that the certification method which is already in existence—

Senator MAYBANK. There is no reason to repeat it if you have given it. I will read it.

Mr. KANE. In that connection, we are at your service, to help in any possible way we can.

Senator MAYBANK. I understand that, but you made a report about some of the bad conditions that existed and were mentioned in your report some years ago.

Mr. KANE. Yes, we discussed that for you earlier.

Senator MAYBANK. If it is in the record, I don't care to go further with it.

Senator BRICKER. We have had a rather detailed account, here, of how the application for the loan is made, how the dealer is qualified by the lending institution, notification on the 6-day delay to the borrower. What check is there on the way the money that is borrowed is used for the purpose to which it was loaned?

Mr. KANE. We couldn't answer that for you, Senator, because that is a matter between the bank and the lender and not the General Accounting Office.

Senator BRICKER. But, since the Government is the insurer I think we have a right to require that the lender follow it up.

The CHAIRMAN. Mr. Frentz, could you answer that question?

Mr. FRENTZ. We encourage the lending institutions to make a spot check. Now, they do a good job of spot checking in the sense that they will—depending upon the dealer, they will spot check every 3d loan or every 5th loan or every 10th loan. They actually go out and look at the job, see whether it has been done, interview the homeowner and talk to the homeowner. Sometimes they may do that before the loan is made. That often times happens, particularly if there is any question about this application that they may have in front of them.

Senator BRICKER. Then is that reported to you?

Mr. FRENTZ. No; that spot check is then in their file on this loan transaction, and when we go around to examine their files, we pick up those spot checkings to follow through.

Senator BRICKER. Would it be possible to have a document similar to the ones that you have submitted, here, as a prerequisite to your guaranty furnished to the lending institution?

Mr. FRENTZ. It would be possible.

The CHAIRMAN. Wouldn't that be advisable in the light of all the defaults we have had brought to our attention?

Mr. FRENTZ. Sir, we are dealing with 2 million loans a year.

The CHAIRMAN. I know, but you are not dealing with them, the lending institution is dealing with them.

Mr. FRENTZ. That's right, but they will be coming into Washington. I assume they would, following through on your suggestion. We would have these 9,000 outlets filing with us these 2 million reports.

Yes, we could handle them. We would have to have the staff, of course, to receive that. If they are going to come into us, then we will have to do something with it.

The CHAIRMAN. Couldn't you require the lending institution to keep those, to require a certification of the use of the money for the purposes for which it was lent and we might write into the law a penal provision carrying penalties for the misuse of those funds which on guarantee?

Mr. FRENTZ. Yes, sir.

Senator BRICKER. We are not interested in the banks making these loans fraudulently. What we are interested in is whether or not the money is used for a purpose other than which it was loaned for and whether or not the contract was properly carried out.

The CHAIRMAN. Mr. Frentz, do you have a list of those between five or six hundred items?

Mr. FRENTZ. I do not know.

The CHAIRMAN. Could you have that for us by tomorrow morning—all, whatever it is. Maybe it isn't that many.

Mr. FRENTZ. It is quite a list.

The CHAIRMAN. We want the exact items you insure. You said yesterday it might run between five and six hundred.

Mr. FRENTZ. May I say I will get it to you as quickly as possible.

The CHAIRMAN. Why can't you just put your fingers right to it?

Mr. FRENTZ. We have to go through 3 or 4 drawer file cabinets and prepare the list for you. (See p. 1597.)

The CHAIRMAN. Haven't you notified every lending agency what they can and cannot insure on?

Mr. FRENTZ. No; this has not been that, though.

The CHAIRMAN. How do you know but what he is insuring on everything?

Mr. FRENTZ. In the booklet I gave you there is a statement of eligibility. There is also in the preliminary explanatory text of the regulations a broad outline of what is eligible and not eligible.

The CHAIRMAN. Then the lender—the banker—is given a lot of latitude in using his own?

Mr. FRENTZ. Yes; within the maximum limitations that we place. When they have an eligibility problem—let's say borderline—they refer it to us for specific rules.

The CHAIRMAN. In other words, they use a lot of latitude?

Mr. FRENTZ. That's right.

The CHAIRMAN. What is your honest opinion; do you think under existing conditions where we have this great prosperity in America and all the money in the banks that title I is any longer needed? What is your honest opinion?

Mr. FRENTZ. May I say this, sir—and this I am giving you as my own opinion.

The CHAIRMAN. That is what we want.

Mr. FRENTZ. That if you take title I out of our economy today, there will be a serious drop in the repairing improvement activity of the country.

The CHAIRMAN. Why? Do you mean private industry just will not do it without the Government 100-percent guaranteeing it?

Mr. FRENTZ. Yes, sir.

The CHAIRMAN. Under title I, the Government for all practical purposes is just guaranteeing them against loss.

Are you saying that private industry has lost its initiative to the point where it will take no further chances in this building industry?

Mr. FRENTZ. I am not saying that, sir. I say this, based upon our own experience of March and February a year ago, when there was a lapse in this program because of our authorization, and also in 1950, 3 years ago, when there was a lapse in our organization, that lenders immediately tightened their operations. They put their attorneys from 36 months down to 18 months. They immediately limited their facilities insofar as the homeowner was concerned and in many areas lenders stopped entirely.

The CHAIRMAN. Why did they stop?

Mr. FRENTZ. Perhaps I can answer it this way: In title I we have a fairly long-term note that is uninsured. Thirty-six months is a long term in the consumer-credit field. The average term may be 12 months, 18 months, 15 months.

We now have 36 months. We have an unsecured note, generally. There is security in a number of cases, particularly on the larger notes, but the smaller loans upon which we are speaking there is nothing for 36 months. There is no way of going back and collecting that. You can't collect that piping job. You can't repossess that plumbing system. So because of that, there is some insurance plan that Congress provides—

The CHAIRMAN. Do you think this is purely to maintain the economy of the United States?

Mr. FRENTZ. I said it does a great deal in the repair and improvement field at a high level.

The CHAIRMAN. Well, we certainly didn't need it from 1950 up to the present time, did we, when we had full employment and prices were going up and up and there was a shortage of materials? We still had this in effect, didn't we?

Mr. FRENTZ. I will grant you there are times in our economy when we may not need these things.

The CHAIRMAN. We hear a lot of complaints about subsidizing the farmers. It seems to me the further we get into this housing bill we certainly are subsidizing, defending, and protecting the building industry and home builders.

Is that a true statement? What chances are the builders taking today? Be perfectly frank and honest now. We are subsidizing the farmers and we hear a lot of complaint about it, but what are we doing for the home builders and building industry?

Mr. FRENTZ. I like to talk about my Division.

Senator MAYBANK. Let me understand. When the farmer gets 90 percent of parity, there is no 140 percent windfall.

The CHAIRMAN. It has been said directly and indirectly by the home builders and others—it has come to me indirectly; not directly—that we are wrecking the industry as a result of this investigation. First,

at me say this, that the President started it, we didn't start it, and I think he was justified in doing so, too, but what is there about this whole business that is hurting the industry?

Mr. FRENTZ. Sir, all I can do is give you the thoughts that I have and give you the facts.

The CHAIRMAN. Private industry is at the point where business will go off unless we subsidize the bankers and make sure that they make 4.6 percent interest on these home loans; is that right?

Mr. FRENTZ. I believe two things will happen. One is that the repair and improvement business of the country will have a drop. Second, that what business there is in the repair and improvement field will go on the lender's books as a \$7 and \$8 discount rate.

The CHAIRMAN. You understand I can say what I have just been saying because private industry has no greater defender than I have. Nobody has fought for it any harder and believes in it any more than I do. I am a part and parcel of it. I think the greatest asset we have in America, is a form of government that encourages and permits the private-enterprise system. I can criticize it because my record is one of defending it and protecting it and I am going to continue to do so as long as I live.

One thing I don't like is socialization, but it seems to me that we have about reached the zenith here in subsidizing the building industry.

Senator BENNETT. Does FHA, or does someone in FHA have figures which would indicate to you the percentage of the total home repair and modernization that is actually financed by title I?

Mr. FRENTZ. There is no accurate figure, sir. I have made many estimates—an estimate; correction—of about 35 to 40 percent.

Senator BENNETT. That interests me because for 30 years I have been in the paint business in a little town out in the West and we don't do any title I business directly. I have the impression that the total volume of title I home repair and modernization will probably run nearer 5 to 10 percent. I don't think it is anything like 35 percent of the total home modernization and repair, which includes putting new equipment in the kitchen and a paint job and all the rest of those things. Landscaping.

Mr. FRENTZ. You see, Senator, in local communities there is no way of checking on the amount of money that the local homeowner may spend for improving his house. There is no such thing as a permit, let us say, in many of those localities. May I use the State of Utah and give you our figures for last year: In the State of Utah last year there were 28,900 improvement loans for a total of \$17,800,000—\$17,800,000. The average loan was \$618.

Now, I have no way of telling what that ratio is, to the total improvement work in the State, but I assume that it is a substantial figure.

The CHAIRMAN. Is that for the calendar year of 1953?

Mr. FRENTZ. Yes.

The CHAIRMAN. You have that for each State in the United States?

Mr. FRENTZ. Yes.

The CHAIRMAN. Without objection, it will be made a part of the record.

(The information requested follows:)

Volume of FHA-insured property improvement loans by State location property, 1953

State	Loans insured			State	Loans insured	
	Number	Net proceeds	Average		Number	Net proceeds
		<i>Thousands</i>				<i>Thousands</i>
Alabama.....	33,761	\$18,085	\$536	New Jersey.....	60,495	\$47,63
Arizona.....	19,334	11,556	598	New Mexico.....	6,976	4,84
Arkansas.....	12,299	7,455	606	New York.....	235,124	170,46
California.....	275,429	139,326	506	North Carolina.....	19,222	11,56
Colorado.....	23,391	13,522	578	North Dakota.....	3,996	2,58
Connecticut.....	11,484	7,760	676	Ohio.....	133,759	77,53
Delaware.....	599	436	727	Oklahoma.....	32,421	19,03
District of Columbia.....	10,857	6,290	579	Oregon.....	19,053	12,68
Florida.....	52,566	34,103	649	Pennsylvania.....	101,962	59,42
Georgia.....	30,875	17,610	570	Rhode Island.....	4,942	2,82
Idaho.....	12,632	8,770	694	South Carolina.....	11,189	6,46
Illinois.....	128,125	83,393	651	South Dakota.....	5,407	3,34
Indiana.....	74,524	43,382	582	Tennessee.....	45,052	23,21
Iowa.....	29,299	17,234	588	Texas.....	166,771	93,30
Kansas.....	25,946	13,953	538	Utah.....	28,962	17,88
Kentucky.....	26,769	14,658	548	Vermont.....	1,759	1,15
Louisiana.....	25,110	15,656	623	Virginia.....	35,160	19,37
Maine.....	10,030	4,957	494	Washington.....	48,592	30,01
Maryland.....	59,441	29,891	503	West Virginia.....	11,169	6,48
Massachusetts.....	45,374	26,753	590	Wisconsin.....	20,280	13,46
Michigan.....	189,049	106,107	561	Wyoming.....	2,092	1,76
Minnesota.....	53,635	30,777	574	Alaska.....	508	56
Mississippi.....	11,810	6,845	580	Hawaii.....	808	72
Missouri.....	56,744	29,519	520	Puerto Rico.....	1,603	1,99
Montana.....	6,425	4,584	713	Puerto Islands.....	3	.
Nebraska.....	12,164	7,258	597	Guam.....	238	28
Nevada.....	3,862	3,232	837			
New Hampshire.....	5,330	2,716	610	Total.....	2,244,227	1,334,28

¹ Includes adjustments.

Senator MAYBANK. Can you tell me what that is for South Carolina?

Mr. FRENTZ. In South Carolina last year there were 11,189 for \$6,468,000, or an average of \$578 per loan.

Senator BENNETT. Perhaps South Carolina doesn't need improvement.

Senator MAYBANK. I appreciate my dear friend from Utah's comment and as long as 90-percent parity remains on cotton and toll we won't.

The CHAIRMAN. What is the State with the largest number?

Mr. FRENTZ. The largest State last year was California. The figures pretty well go by population. California was 275,000.

The CHAIRMAN. 275,000 loans.

Mr. FRENTZ. I will leave off the last figures—275,000 loans.

The CHAIRMAN. How much money?

Mr. FRENTZ. For \$139 million, an average loan of \$506.

Senator MAYBANK. That would be about 25 times that of South Carolina, just by comparison, and that is where these high-price salesmen were, according to your records.

The CHAIRMAN. Gentlemen, I see it is now about 5 o'clock. Senate has adjourned. We didn't get to Mr. Greene.

Tomorrow, our witnesses will be the National Association of Builders and the Mortgage Bankers, I believe it is, starting at 1:00 our own committee room. We are going to change it from 1:30

o'clock. We will meet at 2 o'clock in our own committee room, 301, at which time we will have the National Association of Home Builders and the Mortgage Bankers.

Then, on Thursday we are going to hear from other members of the industry. On Friday, we will again get back to Government officials and former officials, Mr. Greene and others, and we are going to have to get someone over here who knows something about section 608, since Mr. Powell, who has been running it since 1934, refuses to testify. Let me say this now, that we are interested in assistance, suggestions, and ideas on how we can improve the bill very that is now before this committee. We are very, very anxious to get that bill written up, get it improved, if we can, and get it before the Senate and get it passed.

Senator BENNETT. Mr. Chairman, before you finally close this, let me say, I think the meeting of the majority conference scheduled tomorrow morning has been canceled.

The CHAIRMAN. I was asked to call off any hearings Wednesday in order to attend that conference. If that has been called off we can proceed at 10 o'clock.

Senator BRICKER. I would like for Mr. Greene to be able to testify tomorrow morning when he comes, in regard to specifications in these various titles. As to whether or not any specifications are written with materials specified by trade names or by specific companies so as to delimit the field of competition.

For instance, in a house or apartment, if the specifications would call for GE instead of Westinghouse; for Crane plumbing instead of some other, without giving any opportunity for competitive bidding to the prime contractor, or without giving the prime contractor any opportunity to use any adequate facilities.

Mr. GREENE. You are referring to section 608?

Senator BRICKER. I am referring to section 608 and also to the other titles as well.

Mr. GREENE. The specifications on section 608 are made up and presented to us by the builders. They specify whatever they intend to put into the job.

Senator BRICKER. Aren't those specifications approved by the Department in any way?

Mr. GREENE. By us?

Senator BRICKER. Yes.

Mr. GREENE. We simply estimate the specifications.

Senator BRICKER. You have nothing to do with specifications on the building?

Mr. GREENE. We do if it is some material we are not familiar with.

Senator BRICKER. What if it is a specification for a single material by trade name.

Mr. GREENE. It is all right.

Senator BRICKER. That material is all right?

Mr. GREENE. As a matter of fact, Senator, we try to get them to specify the exact material they are going to use so that we can better cost-estimate that particular job.

Senator BRICKER. If there was a specification for Dean & Berry paint, that would be O. K.

Mr. GREENE. That is right.

The CHAIRMAN. This meeting for which we purposely postponed our meeting tomorrow morning has been canceled unbeknown to us

until now. This is a further indication of the problem of governmental efficiency we run up against.

Senator BRICKER. It is Republican efficiency.

The CHAIRMAN. This is nonpartisan.

Senator MAYBANK. The housing bill has always been nonpartisan.

The CHAIRMAN. We will meet at 10:30 tomorrow morning instead of 2 o'clock and our first witness will be the National Association of Home Builders and at 2 o'clock the Mortgage Bankers. Then we will go on, on Friday with Mr. Greene and others. We would like to have a couple of days of hearings now, with witnesses from industry. We are hoping that the industry will come in here and be just as frank as the Government witnesses have in helping us. We will get back on Friday to the governmental witnesses.

Senator BENNETT. Are we meeting here or in our own committee room?

The CHAIRMAN. We will meet in our own committee room at 10:30 tomorrow morning.

(Whereupon, at 4:55 p. m., the committee recessed to reconvene at 10:30 a. m., Wednesday, April 21, 1954.)

HOUSING ACT OF 1954

Amendments To Lending Provisions

WEDNESDAY, APRIL 21, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, in room 301, Senate Office Building, at 10:35 a. m., Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bricker, Bennett, Bush, Beall, Payne, Goldwater, Robertson, Frear, and Lehman.

The CHAIRMAN. The committee will please come to order. Our first witness will be Mr. Richard Hughes, president of the National Association of Home Builders.

Mr. Hughes.

STATEMENT OF RICHARD G. HUGHES, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

The CHAIRMAN. Mr. Hughes, I believe you have a prepared statement. Do you prefer to read that or do you prefer to summarize your statement?

Mr. HUGHES. I prefer to go through this statement and then answer questions.

The CHAIRMAN. You may proceed, then, with your statement.

Mr. HUGHES. Mr. Chairman and members of the committee, let me make one thing very clear at the start. The objectives of this hearing, as expressed in the constructive opening statement of Chairman Capehart, are those of the National Association of Home Builders and myself personally. May I express to your chairman my heartfelt appreciation of the statesmanlike remarks made on Monday, which I am sure express the feeling of this entire committee. I believe that it is high time that a voice is raised to say the things that Senator Capehart said concerning the great good that has been and still can be accomplished by the FHA, and the efficiency and honesty of the overwhelming majority of its personnel.

You have asked me to give testimony regarding amendments which will prevent recurrence of conditions recently alleged in connection with FHA.

The CHAIRMAN. Along that line, I don't mind telling you that we, in this committee were very sincere and conscientious about this investigation. The President of the United States has instigated this investigation. I can't help but see a changed attitude on your part in

your opening statement, from the press release that you got out April 14. Did you prepare that press release?

Mr. HUGHES. I don't recall the one.

The CHAIRMAN. The one on April 14.

Mr. HUGHES. May we see it, please?

The CHAIRMAN. Was that prepared by you? Did you see that before it went out or was that prepared by some member of your staff here in Washington?

Mr. HUGHES. Mr. Chairman, I saw the statement prepared by the staff in Washington and I have a little different opinion now.

The CHAIRMAN. Have you changed your mind?

Mr. HUGHES. I have changed my mind.

The CHAIRMAN. This went out to the newspapers and was quite widely published. I want to read some of the excerpts to make sure that you have changed your mind because I do not think that this committee, in undertaking this investigation, and the President of the United States, are entitled to such treatment as they received in this publicity release. I want to read some of the statements here and see if you still feel that way about it.

While I realize there may be some publicity value inherent in investigations, the facts show that the FHA operations currently under question represent far less than 10 percent of the agency's total operations. Let us not let a very small tail wag a very big dog.

You say:

Such action would be comparable to the White House holding up military legislation while probing a rumor that a few mess sergeants made off with some potatoes 7 years ago.

It looks to me like these are awfully large potatoes and a lot of them.

You say here:

The pending housing legislation which has already passed the House should not be postponed while investigators probe alleged irregularities which for the most part occurred years ago under another administration. Hughes said investigations make good headlines but the people want and need additional housing. Passage of the housing legislation now pending in the Senate will do much to help the industry maintain a high production volume, he added. The White House readily admits that housing is the main prop of our postwar economy, Hughes pointed out. I hope they won't forget it.

Then, you go on to say:

He charged that the circus atmosphere under which the attacks on FHA operations were made gives the public a false impression of FHA, and certainly unjustly puts a black eye on reputable builders everywhere.

What was the circus atmosphere with respect to the President of the United States announcing that he was going to clean up this situation?

Mr. HUGHES. Mr. Chairman, I talked to Mr. Cole recently and since that statement went out, and I submitted a letter in which—after I had very carefully understood the situation, as far as I know now, and that letter I think was put into the record here yesterday—was expressed my desire now to help and to work and to pledge to you the support of the National Association of Home Builders.

The CHAIRMAN. That is the reason why I am bringing it up. Frankly, I want to know whether we are or are not bringing it up. I want to know whether we are going to get your support in trying to clean up the abuses you people are responsible for.

You created these abuses, if there are abuses. I am not saying that here are, yet. I am saying there have been alleged abuses. The President of the United States said there were and we have the responsibility in this committee of trying to clean it up. I don't mind telling you that we do not appreciate such publicity statements as this, and such inferences as you make here, particularly against this committee and against the President of the United States. I want you to know that we do not like it. I ask and plead with you to give us 100-percent corporation in trying to clean this up. We have been sincere, we have been conscientious, we have opened this investigation with the statement that we were going to try to find ways and means of plugging the weaknesses in the proposed legislation and then we were going to get on our way in respect to passing the legislation. We have been sincere and conscientious about it. And then you put out statements like this, and the Mortgage Bankers Association put one out.

I am going to tell them about that this afternoon when they get here. I don't think you have anything to cover up, do you, you builders?

Mr. HUGHES. I don't think so.

The CHAIRMAN. Then, why did you put out that statement?

Mr. HUGHES. I just want to—

The CHAIRMAN. Why did you refer to the circus? Why did you try to embarrass this committee and embarrass the President of the United States?

Mr. HUGHES. I had no intention of trying to embarrass the President.

The CHAIRMAN. You certainly did and the statement speaks for self.

We are conscientious and honest in this committee and we want to help the builders and we want to help the economy of the country. We want to try to help everybody get a home. We want to do a good job and we are not being partisan in this matter and we are not trying to unduly criticize anybody. We do have a responsibility when alleged irregularities are called to our attention, as widespread as the alleged irregularities are, to do something about it.

I am awfully sorry that you made this statement and I am awfully sorry that I have to call your attention to it, but I do. That was a terrific condemnation of the President and this committee that started this investigation.

We must have honesty in the operation of FHA. Nobody knows any better than I do that it is only a small minority that is not honest. No one knows that any better than we do. No one knows any better than do that one bad apple in a fine big barrel of apples can eventually oil the entire barrel if you don't do something about it.

I don't like your news release and I don't think other members of the committee do.

I don't know whether they care to comment on it or not but we don't like to be put in the position—particularly this committee, of being like a circus and doing things that are not right.

We hope that you will help us. We hope you will help us to change the present legislation as it ought to be changed, this proposed legislation, to avoid the alleged irregularities. All I am saying at the moment is that they are alleged because I don't know of any definite proof, yet, but we haven't gotten that far into our investigation. We

are just as anxious as you are to get a good housing bill. We are just as conscious as you are of what it means to the American people. But by virtue of the same thing we are not going to permit you or any other group of people in the United States to fleece the American people and take advantage of them. I am not going to be a party to it. I rather think that, having been the champion that I have been of the private-enterprise system for years, I have fought for them and will still continue to fight for them and believe in them, that I am possibly in a better position than some people, to make the statement that I have.

Mr. HUGHES. We want to clean it up. We want to help you. We do think there are a lot of things out in the field that might be bordering on hysteria.

The CHAIRMAN. Why don't you proceed to read your statement? I have said all I care to say on this. Let's get about the job now between we on the committee, between the Administration, and the industry. Let us get on with our job of seeing what should be done, if anything, with the proposed legislation. Let's get in to the floor of the Senate, let's get it passed and get it to the President of the United States. After we have accomplished that job then we are really going to get into the real investigation of this problem.

Our first job, as I have repeatedly said, is to get this legislation passed, and we want your help. Give us all the help you can to see if we can avoid this little minority out here taking advantage of the great big majority.

You people who represent the home builders, I know you are interested in this so let's get on about this.

Mr. HUGHES. In agreement with the Housing and Home Finance Administrator and the Administration, which prepared S. 2938, I regard it as sound, constructive legislation. Gentlemen, I can say to you in all sincerity that, if I had thought there were any loopholes in the bill before you, I would have suggested corrective measures when I testified a month ago. However, in view of the present situation, I shall make some suggestions later in my testimony that I hope may be helpful.

Whether or not the housing legislation before you passes—and the form in which it passes—is not the most important matter at this time. Our first concern is that public confidence in the FHA and in the entire home-building industry has been shaken.

The sole interest of the National Association of Home Builders and its members is to provide needed homes for the American people at reasonable prices. We are, therefore, vitally interested at this time in helping this committee to do whatever may be necessary to restore the confidence of the American people in the integrity of FHA, without which agency the American home-building industry cannot do its full job. If any individual cases of illegal action have occurred—whether or not they are in or out of the Government or members of this National Association of Home Builders and I, our utmost efforts to assist you in every possible way.

But, while your utmost efforts to assist you in every possible way in financing 1

re committee to do
the FHA is a sound
policy; that the over-

lming bulk of its personnel are honest, hardworking people who have done a good job; and that the millions of houses that the American people have attained through its insurance programs are good ones.

he CHAIRMAN. We are not going to do that if our best judgment and the evidence proves, that there have been irregularities in it there has been welching and harm and injury done to the American people.

Why should we do it? Why do you ask us now to give the FHA a percent whitewash?

Mr. HUGHES. I didn't say that. I am trying to say to you that the Act is basically sound and that the charges, if you will notice down here next to the last paragraph there, I say the charges advanced here have been estimated as covering only one-tenth of 1 percent of the FHA's mortgage insurance program.

Since the present home-building industry has used the FHA as the basis or backbone of the industry and the source of its production credit, damage to the integrity of the FHA will directly reduce the volume of homes. The "finger of suspicion" is now pointed at thousands of ethical home builders in all parts of the country. The home-building industry, comprised of these home builders, mortgage lenders, manufacturers and their employees—which has consistently produced \$12 billion in annual business—cannot operate efficiently under this atmosphere.

Senator BENNETT. If, as you say the finger of suspicion is pointed, the best thing this committee can do is get this thing on the road as quickly as possible and limit the area in which that finger points to the people who have been actually guilty.

Mr. HUGHES. I agree.

Senator BENNETT. Then, don't you think it is important that we wait until this investigation is complete, rather than that we try to lull ourselves to sleep with the idea that we are only talking about one-tenth of 1 percent, and giving the impression that we are making a tempest in a teapot?

Mr. HUGHES. I said that while doing the job of finding out everyone who is guilty, whether it is inside our association or in government, we ought to try to stabilize—I mean try to restore the confidence of the people in the integrity of the FHA.

Senator BENNETT. Do you think it is possible to restore it without—seems to me there are only two ways we can proceed. One is with a complete investigation as possible, and the other is to start to make just generalized, whitewash statements. As far as I am concerned, I think the only method of solving this problem is to go to the bottom of it once and for all and do it as quickly as we can.

Mr. HUGHES. I agree that we ought to have a complete investigation, and I will cooperate in every way.

Senator PAYNE. Mr. Chairman?

he CHAIRMAN. Senator Payne.

Senator PAYNE. Mr. Hughes, yesterday during the course of the hearing I commented in connection with an amendment that was passed and later enacted, proposed by Senator Douglas and Senator Bennett, who is here, with reference to the Defense Housing Act, that it closed the loophole that still was in effect in section 608. That was

my understanding—at least the impression I got from the course of the discussion yesterday—that the builders and the mortgage bankers opposed that amendment proposed by Senator Douglas and Senator Bennett. Were you one of those who opposed it, at that time?

Mr. HUGHES. I may have been. The association did oppose it. However, we have changed our stand and you will find in this statement later on here where we propose just such amendment.

Senator PAYNE. Why was it opposed at that time?

Mr. HUGHES. We thought at the time that it would—well, mainly on the grounds that it is a lot of trouble—

Senator PAYNE. I know the provisions of section 608 eliminated a lot of trouble insofar as the mortgage bankers and builders were concerned but it didn't minimize the trouble insofar as the homeowner or the person who was renting property was concerned.

Mr. HUGHES. I have some statement to make on that later on, or some comment to make on it.

The CHAIRMAN. Mr. Hughes, I am going to read a little colloquy between Senator Sparkman and Mr. Lockwood, who was the president of the same association you are president of, in 1950. I am going to read it, because it shows the attitude that Mr. Lockwood took at that time.

Senator SPARKMAN. In fact, you have done a lot of building under it—because Mr. Lockwood had just finished stating he had done a lot of building under section 608, and that is one of the controversies at the moment, where the alleged irregularities occurred. In fact, this committee has a list of 1,149 corporations furnished them by the Internal Revenue Service, in which that agency alleged that the corporations have each distributed to shareholders funds representing for the most part the excess of mortgage proceeds over actual cost of the project.

Senator SPARKMAN. You have done a lot of building. I mean your people. Not you individually. We have had fine cooperation between the National Home Builders and the Federal Government and everybody who is building homes. We have had fine cooperation under section 608. Yet, isn't it true that under section 608, many times the amount of money that the Federal Government guaranteed or insured or stood for, represents more than 100 percent.

Mr. Lockwood. I don't know of a single case of that being true. I think that is one of the most widely circulated bits of misinformation that I have heard talked about in housing for a good many years.

That was the president of your association who said that.

The impression seems to be that the builder gets in the form of a loan under section 608 more than the total cost of the project. Believe me, in those that I have participated in, that has not been true. I have not actually seen or heard of any in which that was true.

Senator SPARKMAN. I am sure that I can say that there has been ample evidence presented to the committee from time to time justifying our believing that this is true. As a matter of fact, when we reported S. 2246 to the Senate, as you will recall, we proposed to cut the amount of the loan insured under section 608 very largely for that reason. I might also call your attention to the fact that the Architectural Forum in its November issue brought out the very point of excessive loans under section 608.

Mr. Lockwood. May I ask, in all those things, was there any real factual basis or was it just someone's opinion.

That is Mr. Lockwood back in 1950.

Senator SPARKMAN. I don't have it before me but we had numerous specific cases called to my attention and I believe I am safe in saying this, that some members of our committee have told us that they have been told by the builders

themselves that they had gotten more than 100 percent. If I remember correctly—I won't say it positively, but as I remember it Senator Long said he knew of a case where a builder friend of his had gotten 120 percent. In all fairness let me say I am not condemning the builders.

Mr. LOCKWOOD. If I may be facetious, I would like to say that that statement of 120 percent sounds like barroom talk. I can't believe that the FHA would be that lax in its administration.

That is what Mr. Lockwood said in 1950. We have many, many, many cases in which they run from 110 up to 215 percent, and we positively, without any question of a doubt, have the proof.

I want to say to you when we go back and read Mr. Lockwood's testimony and read Mr. Clarke's testimony, the testimony of the Mortgage Bankers Association, read what they did with respect to trying to crucify this Administration and it makes us wonder.

Mr. HUGHES. Well, Mr. Chairman, may I comment on that?

The CHAIRMAN. You may.

Mr. HUGHES. I would like to say that I have talked to a great many builders about their expenses since the time Mr. Lockwood made the statement you talk about. I have built two section 608's myself. I am prepared to say to you that there may have been mortgaging out in some instances but I couldn't do it. Mine were comparatively small ones, one of 56 units and one of 108 units.

I invested in those projects some land in each instance which I thought to be very valuable—in one case, in the 108 units, it was \$50,000, my architectural fees, and considerable cash.

I immediately stopped building section 608's—and you can check the records in the appropriate office, because I couldn't mortgage out. I had been told by people who came around the country representing the National Housing Authority at that time—they had along with them a representative of the FHA, I think. They held meetings in the chambers of commerce all over the country, urging home builders to get in and build some section 608's. They said that we needed rental projects very badly. Home builders were in the habit of building houses and it was very difficult to talk them into changing over from the regular house-building business which they understood and which they knew, to building rental projects. But in many cases, as I did, they built a few just because they were asked to.

The CHAIRMAN. Will you yield a moment?

Mr. HUGHES. Yes.

The CHAIRMAN. We have had some information since this investigation and study started that it was understood by certain FHA officials that one could mortgage out or get more money for their mortgage than the actual cost was. Was that, in your opinion, generally understood?

Mr. HUGHES. No, sir; I don't think it was generally understood that they could get more money out of it than they put into it, but it was generally understood that you were supposed to mortgage out.

The CHAIRMAN. It was understood that you were to get 100 percent, is that right?

Mr. HUGHES. If you had some land, if you put the land into it, the cost of it wouldn't cost you anything.

The CHAIRMAN. That was the general impression?

Mr. HUGHES. I think that was the general impression.

The CHAIRMAN. We have had information to the effect that FHA was encouraging builders and people to believe that if they

would go into a section 608 project that they could get out every dime they put in it and maybe a little more. At least, get every dime out that they put in. That is one of the things that we were anxious to get some information from you and your association on. If FHA, themselves, encouraged this and told people how to do it, that is one thing. If they didn't, that is another.

Mr. HUGHES. Here is the first annual report of the Housing and Home Finance Agency, in 1947. It says:

A large FHA rental housing activity, and a large-scale educational campaign was undertaken by FHA during the first quarter of 1947 to acquaint builders and investors with the Government aids available for rental housing. FHA representatives attended more than 600 meetings all over the country with builders and investors for this purpose.

The CHAIRMAN. Do you think in those meetings that they did tell builders, show them how they could get 100 percent of their money out when the project was finished, or even make a profit on it?

Mr. HUGHES. There was no intention to ever make a profit on it. I would like to try to explain, if I could—

The CHAIRMAN. You go ahead and proceed in your own way. We want your help. We need your help.

Mr. HUGHES. They wanted the section 608 program badly. Houses for rent were needed very badly. It was very difficult, as I started to say, to get our men to build apartment houses when they would take their crew, through their own efforts, and build houses and make a profit on them, and to go into a proposition just for the sake of doing a job, it was pretty hard to get them to do it. So generally speaking they said that they thought there was an opportunity, frankly, to mortgage out. But I can say to you and say to you quite sincerely that some of the home builders were able to mortgage out and some were not. I was one though—

The CHAIRMAN. When you say mortgage out, you mean just got your money?

Mr. HUGHES. Yes.

The CHAIRMAN. You don't mean any profit beyond that?

Mr. HUGHES. That is right.

The CHAIRMAN. Mortgaging out has been pushed around here meaning that you made a profit on it. In your case you just got your money back?

Mr. HUGHES. Well, I didn't say I got my money back. I referred to mortgaging out as getting as much money out of the loan as it cost to build the project.

The CHAIRMAN. That is what I mean.

Mr. HUGHES. Understand the builder still is on that paper, the corporation is still on that paper, and he must repay the loan insofar as he can.

The CHAIRMAN. But in every instance, a separate corporation was organized, was it not?

Mr. HUGHES. Yes.

The CHAIRMAN. With a small amount of money on the part of the builders.

Mr. HUGHES. A small amount of money.

The CHAIRMAN. In many, many instances. We have not been able to get that testimony, yet, because the man handling it, Mr. Powell, refuses, as you possibly know, to testify, and stands behind the fifth

amendment; we haven't been able to get much information on that. But the FHA took preferred stock in nearly every one of those corporations, \$100 worth of preferred stock. So they were separate corporations.

Mr. HUGHES. Of course, the builder's time and effort was left in a deal that was mortgaged out.

I might say that since the days when title VI came in—I would like to leave here my own personal impression, the fact that title VI has actually reduced the cost of building—I mean title VI created the firm commitment and the firm commitment set up production credit for the home builder. For the first time the home builder could do mass buying and in many instances bypassed the retailer and in some instances had even gone to the jobber. That was the first time that the home builder had not had to follow the old procedure of going to the lumberyard and the lumber dealer would furnish him his payroll for Saturday night and the results we thought were extremely high.

Title VI which set up the firm commitment, in my opinion, has created a new type of home builder. It is a new type of home-building business. It has enabled us to get out of the—we have been accused of being in the horse-and-buggy days, with regard to buying and producing en masse, and I think the housing has cost much less than it would have cost had it not been for the overall law.

I would like to also say that there are some of these cases where I understand people did mortgage out. Those same individuals have told me on the previous case, or one after that, that they lost considerable money. I lost considerable money, but there is no investigation of those cases where they lost money.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. I would like you to define the phrase "lost money."

Mr. HUGHES. Had to invest money in the project.

Senator BENNETT. Do you think it has reached the point where the building industry feels that whatever money it has to invest in its business, that it is lost, and it should be able to depend upon the Federal Government for all its invested capital?

Mr. HUGHES. I don't say that, but I do say in this particular project it was just generally understood that the builder wasn't going to invest any of his money in it.

The CHAIRMAN. That was section 608?

Mr. HUGHES. Yes.

The CHAIRMAN. How can you possibly lose money on section 608, when you continue to own the property? What you are saying is that when you added up your costs after you were all through, that the mortgage you had insured by the Federal Government didn't amount to as much as your costs?

Mr. HUGHES. That is right.

The CHAIRMAN. But you still owned the building?

Mr. HUGHES. Still owned the building and still owned the deed.

The CHAIRMAN. Then, how did you lose money.

Mr. HUGHES. I shouldn't have said "lost money," but lost money in the construction—had to invest money.

The CHAIRMAN. You mean, you did not get back as much money from the sale of your mortgage as you put in it?

Mr. HUGHES. That is right.

The CHAIRMAN. The law only intended that you get 90 percent back.

Mr. HUGHES. They said you could get 90 percent of the cost of your property—the current cost. That covered current cost. And the land was based on value and not cost, the materials were based on cost, and there was 5 percent in there for overhead and 10 percent for profit. And so on that basis—

The CHAIRMAN. Let me ask you this question: We have I think, about six titles in this proposed bill in which there might be a possibility of mortgaging-out, particularly section 213, which is cooperative housing.

In other words, these are titles where the Government guaranteed 90 or 95 percent, and in one title, 100 percent. Now, what would be wrong with this:

What would be wrong with our writing into the law that FHA can go ahead and appraise these properties just as they are doing now, and give a commitment on their appraisal with the understanding that when the project is finished they will be furnished with all bills arranged so you can figure exactly what it cost. That it be adjusted to the actual cost and the builder be permitted to, say, get 5 percent more, if his costs ran more, or maybe 10 percent more, I don't know. If it had been appraised for more than it actually cost, then he would reduce the amount of the appraisal and the amount of the mortgage.

Would that hurt the industry, if we wrote that kind of stipulation into the bill?

Mr. HUGHES. I don't believe it would. If you will turn over to page 8 in the statement, you will see I have proposed such a thing as that.

I would like to comment, though, on section 207. I don't believe there is any possibility of so-called mortgaging-out in section 207, because the appraisal system is different. The economic soundness of FIIA is in section 207. They use a capitalization factor, 80 percent or 90 percent of the mortgage, whichever is less, and in our opinion, it makes it so it would be absolutely impossible to do this mortgaging-out on a section 207.

However, we have proposed here that you insert such an amendment as the one inserted in the section 908 where there is a certificate made at the end of the job that the cost wasn't more than the mortgage.

The CHAIRMAN. Then there is nothing in the building industry, or the building of these projects, that makes it impossible or impractical to do that, is that correct?

Mr. HUGHES. No; it doesn't make it impractical or impossible.

The CHAIRMAN. In your opinion, would it have a tendency to reduce building if we write that into law, that when the project is finished, and the actual cost is ascertained, that the amount of the mortgage be adjusted? In your opinion, will that hurt the business?

Mr. HUGHES. I think it might—for the time being, I think in the section 207's, the volume will be reduced, but I don't think that will be the reason for it, particularly.

I think it ought to be in the light of the investigation—

The CHAIRMAN. If we can do that, if we can do what we are talking about, and if we do do it, then it will estop the abuses that we have reading about. The abuses under section 608 that brought on controversy and investigation. Will it not?

Mr. HUGHES. It seems to me that it should.

The **CHAIRMAN.** We have to write a law where, for example, we have one title here on cooperatives, where we mortgage for 95 percent of the appraised value.

Mr. HUGHES. You are talking about rentals?

The **CHAIRMAN.** I am talking about any chapter or title where the Government, in advance, you see, makes a commitment to insure 90 or 95 percent, or 80 percent, or 85 percent, and makes a firm commitment to do it.

Why can't we write into the law that when the project is finished, and the costs are absolutely known, that it be adjusted to the cost, rather than to the estimate?

Mr. HUGHES. May I read my prepared testimony on that?

The **CHAIRMAN.** Yes. We are getting down to the mortgaging out and if we can make up our minds on this thing we are discussing, we can drop everything and go to title I and get your help on that, and we are through.

Mr. HUGHES. It is over on page 8.

The bill before you treats of rental housing in three places. At section 115, it amends section 207 of the National Housing Act. At section 123, it deals with rental housing in blighted areas under the proposed new section 220; and at section 119, it amends section 213 of the National Housing Act, which provides for cooperative housing.

The only method that I know of to assure that the mortgage shall not exceed actual cost of construction—as distinguished from estimated cost—is to provide in each of these sections a provision similar to section 908 (b) (3) of the National Housing Act, as amended in September 1951.

The **CHAIRMAN.** That is the amendment I was referring to.

Mr. HUGHES. Yes.

I would suggest, however, that the language of this section be clarified to include in the definition of "cost," whatever amount this committee feels should be the proper allowance for a contractor's fee and architect's fee.

The **CHAIRMAN.** The architect's fee and the contractor's fee is undoubtedly a cost item.

Mr. HUGHES. They will have to be so written in.

The **CHAIRMAN.** Hire an architect and pay him \$1,000 or \$10,000—is that what you are talking about?

Mr. HUGHES. That is right.

The **CHAIRMAN.** There should be no question about that.

Senator **BENNETT.** Mr. Chairman, I think it comes into the picture because in many cases the builder is his own architect, so he assumes his right to credit himself with a comparable fee, and he is his own builder, he so credits himself.

The **CHAIRMAN.** I think he should do that, because he has to hire engineers and architects, himself. He doesn't actually do the work himself. He has to hire people to do it, so I would think that it was a fair and legitimate cost.

Mr. HUGHES. FHA, by regulation, has set that up, but we thought it ought to be clearly defined in the bill.

The **CHAIRMAN.** Then you agree with us, we have been talking a lot about it in this committee, not only when we are having lunch in the cloakroom, but we have been talking about it publicly, about ame id-

ing the proposed law to simply state that they can go ahead and appraise and make a commitment and then when all the costs are in, they go back and adjust. I think we are going to have to give them a little leeway, possibly, in adjusting upward, too.

Mr. HUGHES. May I also read you the rest of this page, sir?

The CHAIRMAN. All right.

Mr. HUGHES. I feel that the committee should understand that the problem we are discussing is, by its nature, confined to income properties, where the builder retains the property for continued operation. It does not arise in connection with sales properties, for the simple reason that in a sales transaction, the entire proceeds of sale go to the builder, whether derived from the mortgage or the amount of downpayment that the purchaser supplies. The low downpayment in a sales transaction is for the benefit of the purchaser and only indirectly for the benefit of the builder, in that it widens his market.

There is, however, one aspect of FHA operations in the sales field in which the builder may become the mortgagor. This is known as the firm commitment to builder, as distinguished from the FHA conditional commitment which is conditioned upon sale of the home to a satisfactory purchaser.

It is at a substantially lesser percentage of loan-to-value than the amount of the mortgage available to a purchaser. In my opinion, there is no possible loophole in this aspect of FHA operations in that it is a matter of routine procedure in every FHA office that I know of to refuse to issue further commitments for that project if the builder closes his loans pursuant to the firm commitment.

The reason for this refusal is the very sound one that, if the builder cannot sell his homes to satisfactory purchasers, the lack of a further market is conclusively proven. The firm-commitment procedure is simply a temporary construction loan assistance. It is essential to efficient production of homes.

If the committee, however, desires to enact legislation on this point to make assurance doubly sure, I suggest that it provide that FHA firm commitments shall be 10 percentage points below the applicable ratio of loan-to-value for the particular house. That is to say, if the particular house under the statute is eligible for a 90-percent loan in the hands of a satisfactory purchaser, the firm commitment to the builder for that house should be 80 percent.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. I would like to go back to page 8 and refer to this section of the law of 1951.

Now, as I interpret that section—and I was involved in writing it as a completely new member of the committee—that would still permit the builder, even though the loan limit under the law was 90 percent, it would still permit him to get 100 percent out of his mortgage on his house. It doesn't limit him to the 90 percent. The certificate only requires that it not be in excess of the cost of the house, is that right?

The question that has been in my mind is why do we fool with percentages of 95, 80, and so forth, if we are going to allow the builder to go to 100 percent? Why don't we say 100 percent and let it be understood that the Federal Government is expected to supply all the capital for the building of these buildings?

If we permit him to certify that he has not taken more than 100 percent, we assume he has complied with the law.

Mr. HUGHES. An efficient builder may build one for 10 or 15 percent. I have put out bids on a \$1.5 million building and between 10 builders, there may be 10 or 15 percent difference in the bids, at all times.

Senator BENNETT. We are coming right back to me, and my opinion is one of the misconceptions that lies at the base of this problem. On one side is the word "cost," and on the other side is the word "estimate," or "value." We are dealing on one side with the question of the builder's right to a profit and on the other side, we are dealing with his right to get a mortgage from the Federal Government.

Is the builder entitled to get a mortgage in excess of his actual cost? Is the purpose of this mortgaging program a system which makes it possible for the builder to mortgage-out because of a difference between the estimated value and the cost, or is it the purpose of the program to supply him financing that he needs to build the building up to a certain percentage of the actual cost of building the building?

We are assuming that in actual costs, we will have to put in architect's fees and reasonable builder's profit.

It seems to me we leave these two things hanging in the air. If we assume that "mortgage" relates only to "estimate," and that "profit" relates only to "cost," we are leaving a loophole under which every smart builder will do everything he can to make sure that the estimate is high enough so that his mortgage will be high enough so that his cost will be low enough so he can mortgage-out.

Mr. Chairman, I think we have to decide before we get this new legislation written whether we are going to leave this dual method of arriving at the basis for the mortgage, or whether we are going to put it back, finally, to one simple definition which says, as you have suggested, that even though we have to begin on an estimate, in the end, the mortgage should be related to cost, rather than to this hypothetical figure drawn out of experience, in the air, in advance.

I don't see how you can prevent mortgaging-out in any FHA program as long as you are building your mortgage or you are basing your mortgage value on an estimate given in advance. It has no relation in the end to the cost.

It seems to me that the Federal Government is pretty liberal when it undertakes to supply 90 or 95 percent of the final cost.

Otherwise, the industry has no investment. This is an interesting situation, where the Federal Government supplies all the capital for an industry. I don't think the law was intended that way, and I think part of our job is to tighten it up with the support and approval of the industry, so that the mortgage eventually relates to cost.

Mr. HUGHES. You say the Government provides all the capital. It provides the insurance that enables us to get the capital, from the private investors.

Senator BUSH. To what extent do these section 608 mortgages end up in FNMA, in your opinion? Do you know anything about that?

Mr. HUGHES. They sold at a considerable premium. They sold at premiums of as high as 105, on the New York market. In the section 8's, I don't know what percentage it is, but I think we could supply for you. I have in the statement here, which I put in the record, would like to direct your attention to the fact that the FHA figures

show a surprisingly low figure of default in the program considering the fact that it was of a major nature.

In the short time that I have had to get the information together, I don't have it completely up to date, but as of December 31, 1953, of the 7,046 projects in the total section 608 program, FHA has been called upon to make good on its insurance contract in only 67 projects.

Of those, 29 projects totaling 1,977 units had been resold by FHA at an aggregate profit of \$188,535 over and above the mortgage amounts involved.

Senator BENNETT. I need a little educating. You testified earlier that the section 608 program could not have operated without a firm advance commitment. Wasn't that firm advance commitment made by FNMA?

Mr. HUGHES. No, that is for production credit or construction credit. It enabled the home builder to go out and buy his materials. He also had to have somebody to buy the mortgage. That was another commitment. In those days, we got those commitments largely from banks and insurance companies.

Senator BENNETT. Then FNMA was not involved in this initial commitment?

Mr. HUGHES. Eight-tenths of 1 percent, according to this figure here.

The CHAIRMAN. What?

Mr. HUGHES. Eight-tenths of 1 percent of the section 608 programs are held at this time by FNMA.

The CHAIRMAN. It is very small.

Of course, under the section 608's you see, whether they received a considerable amount of money above the actual cost for their mortgage, the harm that has been done is to the rentals, because the rental is based on the amount of the mortgage. If a man has a mortgage for \$1 million, and it only cost him \$800,000, he got \$200,000 which, according to the Internal Revenue Department, they are considering as income.

Likewise, the rent was based on \$1 million, rather than \$800,000.

Mr. HUGHES. I would like to call your attention to the fact that according to Beck's index of construction costs, which is supposed to be an authority on costs of construction, the cost of building apartment houses is up 18.7 percent at the end of 1953 over what it was in 1950, when the last commitment was issued on a section 608.

The CHAIRMAN. What has that to do with it, Mr. Hughes?

Mr. HUGHES. I think that the overall cost of the houses was very reasonable.

The CHAIRMAN. Mr. Hughes, we are not arguing that. What we are recommending and what we think we are probably going to write into this bill is this: A builder under any title where the Government, advance, guarantees to insure 85 percent or 90 or 95 percent, that when the project is 100 percent completed and one can sit down and dig up what the actual cost is, they adjust the mortgage to that amount. I think if we will do that, and FHA will follow it, that we will do, then, exactly what I think we all want done, and what I think will be fair and equitable.

I will even go so far as to say I think we ought to give them a little leeway in case a project costs a little more than the appraisal. I don't

percentage it ought to be, because honest builders can make mistakes and estimate too low.

Just a moment ago, it is his mortgage; he has to pay it back. Now, we are perfectly willing, in this committee and the House, to guarantee a mortgage for 90 percent of the appraisal of it to be 90 percent. We don't want it to be 92 or 88 or 95. We want it to be 90 percent.

MR. HUGHES. It is awfully hard to estimate that close.

MR. IRMAN. That is the point. You can't estimate that close. I am saying at the time the project is finished, then you know what the cost is, and it is simple to go back and adjust, if necessary, down.

MR. HUGHES. On actual cost, we certainly wouldn't argue with that. MR. IRMAN. There is nothing wrong or illegal about that. It is perfectly lawful. Who can complain about that?

MR. JENNETT. The present law wouldn't produce that situation, Mr. Chairman. We are going to have to change the law.

MR. IRMAN. I am talking about 90 percent of cost.

MR. HUGHES. You are still talking about rental units?

MR. IRMAN. I am talking about any title such as cooperative or any other title where the Government, in advance, estimates and makes a firm commitment to insure 90 or 95 percent of the mortgage. We insure the mortgage 90 or 95 percent of the mortgage.

MR. HUGHES. I want to be sure that you are not referring to houses

MR. IRMAN. We haven't gotten into that, yet, Mr. Hughes. There is any possibility that abuse is there or has been, we have never had no testimony that there has been. We have no evidence that there has been but we haven't gotten into it yet. We will take a good look at it, but we haven't any reason at the moment to believe there is any possibility of getting more than they are

MR. HUGHES. I have just tried to look ahead a little bit and suggest a different way you can mortgage-out on the houses for sale is, instead of the firm commitment—and then you can't sell the house. You use the loan in the corporate builder's name and get your money and pay your bank off for construction money. But the very firm rule of practice on that.

MR. HUGHES. That, they won't give you any more commitments, because the market is closed up in that area.

MR. IRMAN. What we are trying to stop, here, is the man getting a raise of \$1 million for a project and getting \$1 million on his mortgage for \$1 million, and it costs him only \$100,000. He immediately makes \$400,000 profit, continues to own it, continues to rent it, and the rents are based, then, on \$1 million, rather than \$600,000, whereas the Congress intended the mortgage to be based on the basis of the \$600,000 figure.

MR. HUGHES. That is what we are trying to avoid in all the titles in the proposed bill. We are thinking in terms of not allowing that sort of thing. We are thinking in terms of not allowing that will permit them to appraise it and then, when the project is finished, take the actual cost, and adjust it to a percentage of 90 or 95 percent.

MR. HUGHES. Is there any reason why that is impractical or that it won't hurt the industry in any way?

Mr. HUGHES. No; I don't think it will hurt the industry. Just so it isn't on the for-sale houses.

The CHAIRMAN. Just so what?

Mr. HUGHES. So it isn't on the for-sale houses.

The CHAIRMAN. We are not talking about for-sale houses. I want to make it perfectly clear that so far we have absolutely no information of any alleged irregularities in the so-called for-sale houses. We are talking so far—our alleged irregularities are in title I and section 608—that is the type of projects we are talking about.

Are you going to discuss title I, or does your organization know anything about that?

Mr. HUGHES. We have a statement in the prepared remarks, there.

The CHAIRMAN. Senator Frear wanted to ask a question.

Senator FREAR. Referring a little bit to the statement made by Senator Bennett regarding costs, as to tying down the appraisal of the agency to cost, I have great sympathy in trying to get to some more accurate figure than what the appraiser might make.

I am yet stumped as to just what a cost figure could be. May I ask this question? How could we prevent the builder from stacking up his costs with unnecessary items in construction in order to build up the difference between 90 and 100 percent, if we want to eliminate percentage?

Senator BENNETT. Well, there isn't any way you can prevent a man from misusing a program if he is determined to misuse it, but if he actually puts those items into the building, somebody will get some benefit from them. If it represents padding, in the sense that it represents fictitious charges, then, of course, that is another problem.

Senator FREAR. Well, I think we are trying to write something into a law to correct abuses. The honest builder, we are not too much worried about. He has been giving a pretty satisfactory performance on his obligations. It is the fellow who is abusing what the intention of the Congress was that we are trying to avoid, now, or trying to keep from those abuses being continued.

I know we would have to continue in our legislation that which would not only take in costs, but give some restriction as to cost. Is that right?

Senator BENNETT. I think it is a difficult thing to do, but I think we have to make the trial. The way things are at present, the mortgage with an advance estimate is completely out in the blue and the fact that there are 1,149 cases indicates that that may be true.

When you are through, I would like to ask Mr. Hughes another question.

Senator FREAR. What I am trying to determine in my own mind, and for the amendment to the bill before us on housing, is how to tie the percentage down. I am in agreement with many of the statements you made, but I do think if we are going to use costs, that we are going to have to make some ~~firm definition~~ as to costs or ~~want~~ avoid the law, we must tie him down just as close ~~to~~ the good builders ~~the restrictions~~ who are building honestly ~~by~~ that may be annoying, to ~~the~~ builders who may not be fi

Mr. HUGHES. In 1947, I think it was—in the latter part of 1947—the price levels had reached an all-time high, since the war. Those people who got commitments in 1948, in the first quarter of 1948, are based upon the price levels at that time.

If you will check the records, I think you will find that there was quite a dropoff in prices. I bought materials at 20 and 25 percent discount in the summer of 1948, based on some statements that came out of Washington to the effect that housing was going to be cheaper, and so on.

The jobbers dumped bathtubs in carload lots at a 20- and 25-percent discount. You had commitments based on the prices in the latter part of 1947, and you bought in the price levels of 1948 and there just wasn't any way, hardly, that you could keep from making some money on that job.

On the other hand, the FHA price levels followed about 6 months behind and those of us who got in in 1949, in the price levels then, and built in 1950, when they started back up, lost a lot of money on any of our jobs. So it is very difficult to set in advance what the market is going to be.

Senator BENNETT. It is all the more reason for coming back to the adjustment the chairman has suggested, and basing your mortgage on actual figures.

The CHAIRMAN. We don't want you to offer loosely any money on a project and neither do we want you to make what is called a windfall, in these type projects.

Mr. HUGHES. I think that a lot of home builders don't expect complete protection. I think it takes away some of the glamour of the home-building business if you do away with the entire possibility of loss.

The CHAIRMAN. It isn't the possibility of loss. We are talking about your mortgage.

Mr. HUGHES. In 1951, I was in charge of the section 908 program or NAHB, working with the Housing and Home Finance Agency, trying to get our builders to build under it. You put economic soundness into the section 908 program, and it was very, very difficult to mortgage-out on that one.

I have heard of no one mortgaging-out on that program. As a matter of fact, they built those houses, our boys built those houses all over the country. In many instances, the war effort that was supposed to go into that area didn't materialize and many of our builders lost a good bit of money under the pressure to cooperate with the Government on those programs. We haven't howled about that. It is just part of the game.

Senator BENNETT. These section 608's were made possible only because the FHA made a commitment. There have been rumors that these commitments were traded in among the builders. Do you have any information with respect to that?

Mr. HUGHES. No, sir; I do not.

Senator BENNETT. Did you know of any trading, any handing around of commitments? They became a rather valuable property.

Because a man had a commitment, he had an opportunity to mortgage-out at a high profit while the man next to him, who couldn't get a commitment, lost that opportunity.

Mr. HUGHES. I never heard of it in section 608. I have heard of that in the Wherry Act, but not in section 608's.

Senator BENNETT. Mr. Chairman, I think the committee ought to attempt to find out from FHA the whole story of these commitments to see if we can discover the extent to which commitments were issued to particular builders, and then transferred to other builders.

The CHAIRMAN. Well, we will do that.

(The information referred to follows:)

FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C., May 6, 1954.

HON. HOMER E. CAPEHART,
Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.

DEAR SENATOR CAPEHART: During the hearing on Federal Housing Administration operations held by your committee on April 21, information was requested from the FHA concerning transfers among builders of FHA mortgage insurance commitments for rental housing projects. Reference was made (p. 329 of the typed transcript) to rumors that commitments were traded in among builders.

As you know, the FHA's commitment to insure a mortgage runs to the lending institution which is the mortgagee, rather than to the builder-sponsor or mortgagor. Where the builder-sponsor or mortgagor desires to have a different company substituted as mortgagor, the lending institution which holds the insurance commitment might or might not be willing to make the loan to the different company, and the consent of the local FHA insuring office to the substitution would have to be obtained.

If the substitute company is itself acceptable as a mortgagor, such consent would, in the normal case, be justified. There are of course many reasons why one building company may properly wish to transfer a project to another company. Sometimes the two companies are closely related, but an additional investor having joined the sponsor, a new corporation was formed. Sometimes the original builder finds that a transfer would be desirable because of other construction work which would be more profitable, or unexpected financial difficulties, or ill health on the part of a principal officer. In such cases, if the substitute company is itself acceptable as a mortgagor, the FHA would have no interest in preventing the substitution.

Regardless of the acceptability of the substitute company, where original sponsors or mortgagors attempt to arrange for a substitution of mortgagors in connection with arrangements for trading in, or speculating in, FHA mortgage insurance commitments, this would constitute an abuse of the FHA program. Such trading or speculation would serve no valid economic purpose and would clearly tend to raise the cost of the housing. Our files indicate that rumors of such trading or speculation were brought to the attention of the FHA and the Congress during 1950. Apparently, the expiration of section 608 of the National Housing Act led to this practice.

Prior to the approaching expiration of section 608 in 1950, anyone who had an eligible project could obtain a commitment and it was not necessary to purchase anyone else's commitment. FHA staff members who are familiar with rental housing operations in the field believe that speculation in FHA commitments had its origin in the expiration of the section 608 program. They have not heard reports of trading or speculation in other rental housing programs. It should nevertheless be recognized that trading or speculation, on a more limited scale, could also be motivated in any community where the FHA insuring office is holding up or limiting the approval of rental housing projects because it feels that the market in that community is nearing a saturation point. In such a case, outstanding commitments would attain a scarcity value which could encourage trading or speculation in that locality.

Attached is a copy of an FHA letter dated July 13, 1950, which was addressed to the directors of all FHA of commitments issued and was issued for the purpose of the letter, it was issued by the House Committee on

Sincerely yours,

Commissioner.

FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C., July 13, 1950.

To: Directors of all field offices.

Subject: Speculation in resale of commitments issued under sections 608 and 207.

In the report of the House Committee on Banking and Currency with respect to H. R. 7402 appears the following:

"Attention of the committee was called to the fact that in some cases there had been abuses through speculative resale of commitments obtained for FHA mortgage insurance. It is the sense of the committee that appropriate regulations could and should be issued by the Federal Housing Commissioner to prevent speculations in any FHA mortgage insurance commitments."

This portion of the committee report was not intended to apply to the transfer or assignment of a commitment from one mortgagor to another but rather to the amendment of an outstanding commitment by substitution of a mortgagor, or sponsor or sponsors, particularly with respect to rental housing projects under sections 608 and 207.

Such an amendment to a commitment is, of course, entirely within the control of the insuring office since it could not be made without the consent and approval of this Administration.

You are advised that with respect to outstanding commitments it is contrary to Administration policy to consent to the substitution of a mortgagor, or sponsor or sponsors, when such substitution is for speculative purposes. Such substitution will be permitted only in those cases in which, following consideration of all the facts and circumstances surrounding the case, the Director is satisfied that the proposed substitution is not for speculative purposes; and then only, following examination of credit information in accordance with underwriting procedure, when it has been determined that the mortgagor, or sponsor, or sponsors, proposed to be substituted are acceptable from an underwriting and administrative point of view as if such mortgagor, or sponsor, or sponsors, had been a party or parties to the original application for mortgage insurance.

Very truly yours,

CLYDE L. POWELL, *Assistant Commissioner.*

The CHAIRMAN. I have in my hand, here, 251 cases of where the section 608 projects were mortgaged-out from 110 percent up.

For example, here is one where the appraisal was \$4,270,000—the mortgage was \$4,270,000—the cost was about \$2,935,000. He made \$1,316,874.48. He wanted to pay 26 percent, or capital gains tax on it, instead of considering it normal income. He made \$1,316,000. Now, how can that happen, Mr. Hughes?

Mr. HUGHES. That is a better deal than I know of.

The CHAIRMAN. There are some that are better than that.

Mr. HUGHES. How many units are in there, Senator?

The CHAIRMAN. We have that downstairs but we don't have it here. This just shows the mortgage, the cost, the profit.

Senator FREAR. Does it give you the State?

The CHAIRMAN. Not this list.

Mr. HUGHES. Does it show the year?

The CHAIRMAN. No, but we have all that.

We have 1,149 cases taken directly from the income tax returns of these people. These figures are taken from their income-tax returns, because in this instance they admitted it was profit. They admitted it happened and wanted to pay capital-gains tax instead of normal income tax. There are 1,149 of them. We have the names and addresses and the whole story and their income-tax returns. Of course, that is not to be made public and will not be made public. It is for the use of the committee.

That is the sort of thing we are trying to stop, that we are sincere and honest about. I am sure you are, too. I think you just got a little excited, you people, and issued a statement, maybe, that you shouldn't have done. I am quite certain you are sorry for it.

Mr. HUGHES. I have tried to apologize several times.

Senator FREAR. How far do you want to hold that man responsible for the actions of his staff?

The CHAIRMAN. Everybody is entitled to make one mistake, but let's not make too many.

Do you have any information on inspectors and appraisers for FHA? Do you have anything you care to say about that? How we may improve that particular phase of FHA?

Mr. HUGHES. No, I don't.

The CHAIRMAN. Is it your observation that they have had a sufficiency of them, or that they have been short of them, do you think?

Mr. HUGHES. At various times there have been charges of insufficient appraisers on the staff. I think there are insufficient appraisers in a number of areas at this time. I have had indications in the last month. In my own area, they are a month to 6 weeks behind in all their work.

The CHAIRMAN. Mr. Hughes, tell us what you can about title I. Give us all the help you can.

Mr. HUGHES. Well, sir, most of our builders do not do the title I work. We may have some who do but we have checked and find it is a very small percentage. I was on the President's Advisory Committee last summer and fall and we studied this thing pretty diligently, at that time. I thought at that time that the regulations that were proposed for the FHA, if put into effect, were sufficient. It seems to me that perhaps those regulations might be put into the law. That might make it perform a little better.

The CHAIRMAN. You mean take the good regulations which you think they have put into effect recently, and make it a part of the law?

Mr. HUGHES. That might have some effect.

The CHAIRMAN. Have you personally had any experience with title I?

Mr. HUGHES. Yes, sir. My lumberyard has had experience with title I. We find it is very competitive in our area, though. All the lumberyards and dealers use it. I personally don't know much about any abuses. There haven't been any claims or arguments in the ones I have had anything to do with.

If you really want to tighten it up, you can get the dealer to endorse that paper.

The CHAIRMAN. We have been suggesting that as one remedy. We are not far enough along yet to know whether or not—of course it only works where the dealer is involved. You see the home owner has the right to go down as far as \$2,500 and pick his own dealer. When he borrows the money, the bank doesn't know what dealer he is going to pick, so this second party endorsement on the note wouldn't apply under those circumstances. I don't know how you are going to tighten that one up.

Mr. HUGHES. I am wondering if your complaints are not less when they go direct to the bank and make the deal.

The CHAIRMAN. We don't have any figures or facts on it, but we're not through yet.

Have you any suggestions on that?

I thought maybe you might consider establishing Compliance Division that would be adequate for the use of the agency and the scope of its operations.

It seems that 6 people wouldn't be adequate to look after the compliance in an organization where their own employees number 4,000, and there are 2 million loans in that particular type. But the six people cover the whole of their operations.

The CHAIRMAN. You see the unscrupulous salesman and the unscrupulous dealer, while they are by far in the great minority, have, I think, done a lot of harm to FHA, and done a lot of harm to the industry.

We will have Mr. Olney, of the Department of Justice, as one of our witnesses on Friday. He has a lot of information on violations of title I. But it is rather hard at the moment to figure out ways and means of tightening it up. We would like to get the benefit of your help today, if we can, and if not, maybe your board of directors could meet and you could get together and do a little investigating yourselves; a little studying of the problem.

Mr. HUGHES. We have our executive meeting here today. We will meet this afternoon, and we pledge our cooperation to work with you not only on this but on the certification for the section 213's and the section 207's. If we come up with any ideas we will be very glad to bring them to you.

The CHAIRMAN. What we want to stop is these gentlemen making a profit on these types of projects.

When the mortgage is more than the actual 90 percent of the cost which we wrote into the law, then the rents are higher. Of course, you can say, "Well, the record has been very good on repayments to date," and we agree with that, but, of course, this is a new project. Most of these projects, you know, were built in 1947, 1948, 1949, and 1950—most of them in 1950—and most of them were then just being completed. We don't know what is going to happen in the next 10, 15, or 20 years on these mortgages, because they run many years. While they are in good shape now they may not be in such good shape 10 years from now. But the unfortunate part is that wherever this mortgage is higher than 90 percent of the estimated cost, then the people paying rents are paying more rents than we intended that they should by the law.

You agree with that, don't you?

Mr. HUGHES. I agree with the objective; yes, sir. I didn't quite get what you said. You said that the section 608's were very new and you didn't know how they would work out over a period of time. That is true, but I would like to call to your attention—that is the reason I brought out the index of construction costs, that because they are up 18 percent more than they were at that time. And also the reserves in the title are in excess of \$167 million, and the debenture system furnishes as a pad against losses, which I think will probably make this section a pretty good section, insofar as the FHA is concerned.

The CHAIRMAN. I think, generally speaking, that is true, but what we are trying to do here now is to deal with the unscrupulous person who takes advantage of technicalities in the law, or the law itself. That is what we are dealing with. We are trying to write this new bill to eliminate all the abuses that evidently have been entering into this whole Federal housing business.

Mr. HUGHES. We honestly and sincerely pledge our support.

Senator LEHMAN. I don't think anybody has been a stronger supporter of public housing and Federal housing than I have been. But

I think you people in the industry should be aware of the fact that the things that have been represented or brought out, those allegations to some extent or to a considerable extent have shaken the confidence of the public in this whole program. It is going to have its impact on the Congress when a housing bill comes before them.

I think there is no doubt that in a great many instances, although no criminal statute has been broken, nonetheless an advantage has been taken, because of loopholes in the law, which has made it possible for people to mortgage out at a profit. That may not, in the long run, cost the Government a great amount of money, but it certainly does cost the tenants increased charges in the form of rentals.

I just can't believe that it is right that a man can go ahead and, under the law, possibly acting perfectly legally under existing law, get a loan so far greater than his ultimate cost that he will be able to make a large profit. Whether that profit is considered a capital gain or an income doesn't make any difference, it is a profit, and in some cases it is a very large profit.

I believe if you gentlemen who are in the industry have nothing more important to do than to tighten this thing up so that people will be satisfied, and see that there are no serious abuses in the operation of this law. As long as there is doubt in the minds of the public, it is going to have its impact just as sure as shooting. First in this committee, and then the Congress of the United States. I think it is very important for you gentlemen to make it very clear through suggestion, possibly coming from you—and I hope they will come from you—that you are going to favor the tightening up of this law so that there are no loopholes that would permit unreasonable and unfair and unjustified profits, which do mulct the public in the long run.

Mr. HUGHES. We have tried to say most of the things that you have said in our statement, and we have tried to make suggestions. So far as we now know, we have spoken to things that would correct and stop any possibility of mortgaging out in the future on these rental projects. We have pledged to you that we will keep on working on the thing, and if we get any additional ideas we will come and submit them.

Senator LEHMAN. Well, the reason I made this statement was that I didn't hear your statement in full this morning, unfortunately. I had to go to another meeting. However, I do recall the testimony which you gave in your previous appearance. I think at that time you testified that you did not think that the existing law required any amendments or improvement. You must have been aware, it seems to me, of some of the practices—technically legal practices, but nonetheless costly practices—that have been in force for a good many years.

Mr. HUGHES. The law as proposed under section 207—the rental proposals in this bill—they don't have the same concept that section 608 has. Section 608 had a concept of emergency housing. Section 207 has a concept of economic soundness, and I don't really think that there is anywhere near the possibility of mortgaging out on a section 207, and I say that honestly and sincerely. At the same time, I proposed an amendment similar to the one that was put into section 908 in 1951, which I think would do away completely with the possibility of that happening.

The CHAIRMAN. You can do a lot, I think, with your industry, to lead out these chiselers. They are in the minority, of course, but I could do a lot, and I know you will.

Senator LEHMAN. Mr. Chairman, I want to ask you a question. My office and I are getting a substantial number of calls from newspapermen who want the names of the section 608 builders who have mortgages out in New York State. I would greatly appreciate it if you, as committee chairman, would tell us now what the situation is with respect to these names and whether you plan to make them available to the public.

The CHAIRMAN. I will be delighted to answer the question.

As you know, the information that we have is taken from the internal revenue returns of the individual builders—1,149 of them. They were turned over to us by the President of the United States, rather by the Internal Revenue Service, as a result of an Executive order from the President. Under the law, any information taken from an income-tax return, of course, is confidential and cannot be given out to anyone, except upon a directive of the President of the United States, to certain departments of Government who are entitled to it, in order to carry on their business.

A committee such as ours is entitled to it, but even then only upon a directive of the President of the United States. Therefore, the names of the 1,159 will not be given out. We have no right to give them out and they will not be given out. However, we will have as witnesses many of the people whose names we have, in public hearings, and, of course as we call them as witnesses when we get to the real investigation of this matter, then they will become public. However, until that time we cannot, under the law, give the names out, as I understand the law. I might at this point without objection, make a part of this hearing title 26 of the Internal Revenue Code, which covers this subject, Senator.

Senator LEHMAN. Thank you very much, Mr. Chairman.
(The information referred to follows:)

TITLE 26—INTERNAL REVENUE

CHAPTER I—INTERNAL REVENUE SERVICE, DEPARTMENT OF THE TREASURY

Subchapter E—Administrative Provisions Common to Various Taxes

[T. D. 6084]

PART 458—INSPECTION OF RETURNS

SECTION OF CERTAIN RETURNS BY COMMITTEES OF CONGRESS OTHER THAN THOSE ENUMERATED IN SECTION 55 (D) OF THE INTERNAL REVENUE CODE

458.321 *Inspection of returns by committees of Congress other than those enumerated in section 55 (d).* (a) (1) Pursuant to the provisions of sections (a), 508, 603, 729 (a), and 1204 of the Internal Revenue Code (53 Stat. 29, 171; 54 Stat. 989, 1008; 55 Stat. 722; 26 U. S. C. 55 (a), 508, 603, 729 (a), and 1204), any income, excess-profits, declared value excess-profits, capital stock, estate, or gift tax return for any taxable year shall be open to inspection by any committee of the Congress, or any subcommittee of a committee of the Congress, duly authorized to inspect such returns by an Executive order¹ issued under the aforementioned statutory provisions on or after the date of the approval of the order. Such inspection shall be subject to the conditions and restrictions

¹ Executive Order 10518, *Supra*.

imposed by the Executive order and the rules and regulations hereinafter prescribed.

(2) The inspection of any of the aforementioned returns may be made by the Committee of the Congress, or the subcommittee of a committee of the Congress, authorized as provided in subparagraph (1) of this paragraph, acting directly as a committee or as a subcommittee, or by or through such examiners or agents as such committee or subcommittee may designate or appoint in its written request hereinafter mentioned. Upon written request by the chairman of such committee or of such subcommittee to the Secretary of the Treasury, giving the names and addresses of the taxpayers whose returns it is necessary to inspect and the taxable periods covered by the returns, the Secretary of the Treasury or any officer or employee of the Treasury Department, with the approval of the Secretary of the Treasury, shall furnish such committee or subcommittee with any data relating to or contained in any such return or shall make such return available for inspection by such committee or subcommittee or by such examiners or agents as such committee or subcommittee may designate or appoint. Such data shall be furnished, or such return shall be made available for inspection, in an office of the Internal Revenue Service. Any information thus obtained by such committee or subcommittee shall be held confidential: *Provided, however,* That any portion thereof relevant or pertinent to the purpose of the investigation may be submitted by the investigating committee to the appropriate House of the Congress.

(3) This section shall not be applicable to any committee authorized by section 55 (d) of the Internal Revenue Code to inspect returns.

(b) Because this section constitutes a general statement of policy and establishes a rule of Departmental practice and procedure, it is found that it is unnecessary to issue this section with notice and public procedure thereon under section 4 (a) of the Administrative Procedure Act, approved June 11, 1946, or subject to the effective date limitation of section 4 (c) of that Act.

(c) This section shall be effective upon its filing for publication in the **FEDERAL REGISTER**.

(53 Stat. 467, 26 U. S. C. 3791)

[SEAL]

M. B. FOLSOM,
Acting Secretary of the Treasury.

The CHAIRMAN. The Internal Revenue Service has already given out the total number of 1,149, but we cannot give out the names without violating the law, as I understand it.

We are going to check it very thoroughly. It may well be that I am wrong in the statement I have just made, but I do not think I am. If we find later that we can give them out, of course, you being a member of this committee, we will give the names of the people in New York to you.

One other thing, Mr. Hughes. We are getting some complaints that some builders of projects insured by FHA under section 608 or other provisions of law are not paying the prevailing wages in the communities where the projects are being built. Do you have any information on that? I am not thinking primarily of individual homes for sale where the mortgage is insured by FHA.

Mr. HUGHES. No; I don't have any information on that.

The CHAIRMAN. We are getting quite a number of complaints on that—that they are not paying the prevailing wages.

Of your own knowledge, you know nothing about it?

Mr. HUGHES. I know of nothing. I thought the Department of Labor was working on that.

The CHAIRMAN. Well very much if your examination, go over the matter, go over the matter of your advice. We are in eliminating this

Mr. HUGHES, we would appreciate it if you would meet and go over this whole matter with us. We will give us the benefit of your advice. We are in eliminating this

common term now, and everybody understands what we mean, and the other is finding some way to eliminate the chiseler under title I. We would appreciate your help very, very much. We have 2 more days of hearings, and then we are going to meet as soon as we can to start writing up this bill that is before the committee and get it before the Senate and get it passed and get it into law. We are going to do everything we possibly can to move it along as fast as we can, but, at the same time, we are not going to knowingly leave any loopholes in it.

We are going to tighten it up as best we can, based upon the experience that we have now had. We appreciate your help. We are a little critical of your press releases, and, I think, rightfully so, and we are a little critical of the speech you made, too, which I hold in my hand, but I shall not make any comment about it.

You will find that is not, I don't think, in the best interests of the builders of America to bite the hand that has been feeding it, and the Congress of the United States has been passing these laws and the President of the United States has been recommending them, and we want your cooperation. We know we will get it from now on.

Unless there is something further to come before the committee, we will say thanks, and we may want to call you back later for more help. We will stand in recess until 2:30, at which time our witness will be the Mortgage Bankers Association. We will meet at 2:30 in this room. Mr. Hughes' statement will be made a part of the record. I don't think you read quite all of it.

MR. HUGHES. Mr. Chairman, I would like to again thank you for the opportunity of appearing before you and tell you that we will cooperate with you, and I thank you. I think your hearings have been fair and impartial, and I hope that we can help you in some way.

THE CHAIRMAN. We appreciate that; we know you will and we appreciate your coming here. I don't think anyone is hysterical now. We are going to get this job done and done as it should be done.

(The prepared statement of Mr. Hughes follows:)

STATEMENT OF R. G. HUGHES, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. Chairman and members of the committee, let me make one thing very clear at the start. The objectives of this hearing, as expressed in the constructive opening statement of Chairman Capehart, are those of the National Association of Home Builders and of myself personally. May I express to your chairman my heartfelt appreciation of the statesmanlike remarks made on Monday, which I am sure express the feeling of this entire committee. I believe that it is high time that a voice is raised to say the things that Senator Capehart said concerning the great good that has been and still can be accomplished by the FHA, and the efficiency and honesty of the overwhelming majority of its personnel.

You have asked me to give testimony regarding amendments which will prevent recurrence of conditions recently alleged in connection with FHA. In agreement with the Housing and Home Finance Administrator and the Administration, which prepared S. 2938, I regard it as sound, constructive legislation. Gentlemen, I can say to you in all sincerity that, if I had thought there were any "loopholes" in the bill before you, I would have suggested corrective measures when I testified a month ago. However, in view of the present situation, I shall make some suggestions later in my testimony that I hope may be helpful.

Whether or not the housing legislation before you passes—and the form which it passes—is not the most important matter at this time. Our first

concern is that public confidence in the FHA and in the entire home-building industry has been shaken.

The sole interest of the National Association of Home Builders and its members is to provide needed homes for the American people at reasonable prices. We are, therefore, vitally interested at this time in helping this committee to do whatever may be necessary to restore the confidence of the American people in the integrity of FHA, without which agency the American home-building industry cannot do its full job. If any individual cases of illegal action have occurred—whether or not they involve persons in or out of the Government or members of this association—the National Association of Home Builders and I, as its president, pledge our utmost efforts to assist you in every possible way to uncover them.

But, while doing this job, I plead with this entire committee to do your utmost to reassure the American people that the FHA is a sound financing institution, deserving of public confidence; that the overwhelming bulk of its personnel are honest, hardworking people who have done a good job; and that the millions of houses that the American people have attained through its insurance program are good values.

Much damage has already been done to the entire FHA program, even though, at worst, the charges advanced have been estimated as covering only one-tenth of 1 percent of FHA's mortgage-insurance program. Since the present home-building industry has used the FHA as the basis or backbone of the industry and the source of its production credit, damage to the integrity of the FHA will directly reduce the volume of homes. The "finger of suspicion" is now pointed at thousands of ethical home builders in all parts of the country. The home-building industry, comprised of these home builders, mortgage lenders, manufacturers and their employees—which has consistently produced \$12 billion in annual business—cannot operate efficiently under such an atmosphere.

Reports from builders, lenders, and manufacturers from all parts of the country have convinced us that the situation is extremely serious and—unless something is done quickly to restore the confidence of the people in the integrity of FHA—might well assume proportions bordering on hysteria. In my opinion, it is not unreasonable to assume that this hysteria could spread to the Veterans' Administration loan-guaranty program.

It is against this background that the words of Chairman Capehart's opening statement are particularly important. He pointed out "that the maintenance of our economic health is to a large extent dependent upon a healthy home-building industry" and called attention to the continued need for a soundly functioning FHA to keep the home-building industry healthy. He stressed the determination of this committee to bring about that result.

During its 20 years' existence the FHA has received from many sources the highest praise for the soundness of its conception and the general effectiveness of its administration. It has received praise from Senators and Representatives of both parties, from bankers, industry leaders, citizens' groups. Financial representatives of nations from all over the world have come to study it as a possible method in their own countries to bolster their economies. Only last year Canada, after experimenting with other forms of assistance to home purchasers, initiated a "Canadian FHA."

The FHA, with its firm commitment, is the very backbone of the present home-building industry. The FHA firm commitment is the keystone of the modern home-builder's operation. It enables him to get construction money and thereby to produce and buy in volume. The direct result is that the industry—which a few short years ago was criticized on all sides for being archaic in its methods—has been able to develop into a modern industry which produced 8 million homes since the close of World War II and this production has been at constantly decreasing comparative cost.

Government statistics show that Americans spent 11.4 percent of their consumer incomes for housing in 1953, as compared to 14.5 percent in 1929. In my opinion, the firm commitment and the FHA mortgage pattern, combined, of course, with the VA loan, have been responsible for the fact that people are spending approximately 21 percent less of their incomes for shelter than they were in 1929.

In testifying before this committee about a month ago I pledged the complete support of the home-building industry to a housing program which we sincerely and strongly felt—and still feel—could go far toward meeting the housing needs of this country and at the same time increase the home-building industry's volume of production from \$12 billion to \$18 billion annually. Our pledge was based

the passage of S. 2938, with certain amendments, but inherent in it was the assumption that there would be in operation a strong, soundly functioning Federal Housing Administration. Every new feature in this bill depends upon such strong, soundly functioning agency. But, as I have stated, no housing program—certainly not an expanded housing program—can be accomplished unless the American people have complete faith and confidence in the integrity of the FHA and in the builders of this Nation.

With respect to specific suggestions for incorporation into S. 2938, only a small percentage of home builders engage in modernization work. Our suggestions with respect to title I, therefore, would not be of as much value to this committee as the suggestions of others more familiar with this specialized subject. As a member of the President's Advisory Committee I personally agreed last fall with other members of that committee that the regulations proposed by FHA at that time and put into effect December 1, 1953, would go far toward correcting the possibility of abuse of the title I program. I suggest that you consider enacting those regulations into law.

It would seem to us further that the suggestion made to the committee on Monday that the dealer should endorse title I paper is worthy of study.

Finally I suggest that you consider establishing within FHA a Compliance Division adequate to the size and importance of that agency and the scope of its operations.

With respect to section 608, I would first like to make certain observations.

It may be helpful to the committee to have my own experience under the 608 program. I built two comparatively small 608 projects comprising 56 and 108 units, respectively. When I finished both of these I had invested in them a valuable piece of land, the expense of architects and other services of my staff, and considerable cash. To use the term that I have seen in the headlines, I did it "mortgage out."

Gentlemen, that concluded my experience with section 608. I decided to go back to the building of homes for sale.

Of the hundreds of builders to whom I have talked in the last few years, good many have told me of similar experiences; some have told me that they came out even with no investment in the project but their time and efforts; and others have said that they have made a profit because they were able to buy cheaply through mass production, or got a break in the weather, or because they are just better builders than the average, or because the prices of materials dropped between the time of commitment and completion of the project. Of course, the committee understands that the reverse can and frequently does happen. Many a builder was caught in a rising price market.

It is in the light of this experience that I would like to make certain observations on section 608.

(1) Most, if not all, of the housing under this program was constructed at a time when our industry was under great pressure from the Government and the public to meet an acute housing shortage. Section 608 was enacted and administered at a time when both the executive and legislative branches of the Federal Government were almost frantically seeking every conceivable inducement to attain a maximum of private and public construction—particularly rental housing.

The Government even expended hundreds of millions of dollars by direct appropriation for flimsy, temporary dwellings for veterans and students, knowing at their use was justified only for a short time. We certainly do not condone the stakes made even in such an atmosphere but the climate prevailing at the time should at least be considered and understood.

(2) The overwhelming majority of builders, prior to the war, built only homes for sale. The section 608 program was intended to attract them into the construction of rental housing and considerable effort was devoted by Federal officials to that end in order to produce the housing that was then desperately needed.

(3) I want to make it clear that it is an entirely possible and not unusual result, in ordinary noninsured conventional financing of commercial properties, that actual out-of-pocket construction costs to the builder to be less than the amount of the mortgage. So-called "mortgaging out" is not confined to FHA-insured lending, as seems to be the prevailing impression.

(4) In section 608 cases, the developer was usually his own builder. Any so-called profit made in such transactions is, in effect, compensation for the builder's overhead and efforts. It is the equivalent of a contractor's fee plus fee for the extra work required in 608 cases over and above that generally

performed by a contractor. In the usual case, it was less than would have been paid had a third party contractor been hired to do the building.

(5) The possibility of mortgaging out and therefore the amount of profit to the builder obviously increases with the increase in the percentage of loan to value. Section 608 was purposely designed by the Congress to offer the most liberal terms to builders.

(6) The fact that a builder's actual cost may prove to be less than the mortgage, whether under FHA financing or otherwise, does not of itself indicate that the loan has been excessive; that the appraiser has been careless or lax; or that there have been irregularities.

It is my conviction that the 465,000 units of rental housing which were built under 608 could not have been produced as cheaply in any other fashion. The impression that the Government has lost millions of dollars and that tenants have been charged excessive rents is, in my opinion, erroneous with respect to the vast majority of these projects. I direct your attention to the FHA figures which show a surprisingly low percentage of defaults in this program, particularly considering its emergency nature. In the short time since I received your invitation, I have not been able to obtain up-to-date figures but the official reports show that, as of December 31, 1953, of the 7,046 projects in the total 608 program, FHA had been called upon to make good on its insurance contract in only 267 projects. "Of those, 29 projects totaling 1,977 units had been resold by FHA at an aggregate profit of \$188,535 over and above the mortgage amounts involved." Bear in mind that these were projects produced in areas of sudden and urgent demand, some of them during wartime and subject to shifts of population that occurred after the war.

The project still in FHA's portfolio, so far as I can determine, are paying their own way out of rental receipts and form a more than adequate base for the FHA debentures which were issued against them on conveyance to FHA after default.

The bill before you treats of rental housing in three places. At section 115, it amends section 207 of the National Housing Act. At section 123, it deals with rental housing in blighted areas under the proposed new section 220; and at section 119 it amends section 213 of the National Housing Act, which provides for cooperative housing.

The only method that I know of to assure that the mortgage shall not exceed actual cost of construction (as distinguished from estimated cost) is to provide in each of these sections a provision similar to section 908 (b) (3) of the National Housing Act, as amended in September 1951. I would suggest, however, that the language of this section be clarified to include in the definition of "cost" whatever amount this committee feels should be the proper allowance for a contractor's fee and architect's fee.

I feel that the committee should understand that the problem we are discussing is, by its nature, confined to income properties, where the builder retains the property for continued operation. It does not arise in connection with sales properties, for the simple reason that in a sales transaction the entire proceeds of sale go to the builder, whether derived from the mortgage or the amount of downpayment that the purchaser supplies. The low downpayment in a sales transaction is for the benefit of the purchaser and only indirectly for the benefit of the builder in that it widens his market.

There is, however, one aspect of FHA operations in the sales field in which the builder may become the mortgagor. This is known as the firm commitment to builder, as distinguished from the FHA conditional commitment which is conditioned upon sale of the home to a satisfactory purchaser. It is at a substantially lesser percentage of loan to value than the amount of the mortgage available to a purchaser. In my opinion, there is no possible loophole in this aspect of FHA operations in that it is a matter of routine procedure in every FHA office that I know of to refuse to issue further commitments for that project if the builder closes his loans pursuant to the firm commitment. The reason for this refusal is the very sound one that, if the builder cannot sell his homes to satisfactory purchasers, the lack of a further market is conclusively proven. The firm commitment procedure is simply a temporary construction loan assistance. It is essential to efficient production of homes.

If the committee, however, desires to enact legislation on this point to make assurance doubly sure, I suggest that it provide that FHA firm commitments shall be 10 percentage points below the applicable ratio of loan to value for the particular house. That is to say, if the particular house under the statute is eligible for a 90-percent loan in the hands of a satisfactory purchaser, the firm commitment to the builder for that house should be 80 percent.

Mr. Chairman and gentlemen, may I thank you for your courtesy and again assure you that the National Association of Home Builders and I, as its president, are entirely at your disposal to accomplish results that we all seek in common and that I feel are of tremendous importance to the American people and the American economy.

The CHAIRMAN. We now stand in recess until 2:30.

(Whereupon, at 12:10 p. m. the committee recessed, to reconvene at 2:30 p. m. the same day.)

AFTERNOON SESSION

The committee reconvened at 2:40 p. m., Senator Homer E. Capehart (chairman) presiding.

The CHAIRMAN. The committee will please come to order.

I believe our first and only witness this afternoon is Mr. Samuel E. Neel, general counsel, Mortgage Bankers Association of America.

I believe, Mr. Neel, you have a prepared statement, do you not?

STATEMENT OF SAMUEL E. NEEL, GENERAL COUNSEL, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. NEEL. I do, sir.

The CHAIRMAN. I presume you would like to read that.

Mr. NEEL. I would like to.

The CHAIRMAN. Before you read that, I would like to ask you this question. I am going to read from something. You got out a resolution, did you not, your Mortgage Bankers Association, on this whole subject?

Mr. NEEL. We made a statement—that is, the president of the association made a statement to the press regarding the manner in which Mr. Hollyday was dismissed from his office, sir.

The CHAIRMAN. You said:

The forced resignation of Guy T. O. Hollyday as Commissioner of the Federal Housing Administration is unwise and unjust. In Mr. Hollyday's resignation, the Administration and the entire country have suffered a great loss.

Mr. NEEL. We did say that, sir.

The CHAIRMAN. You also said, and this is really the substance of what I want to talk to you about:

In our opinion, Mr. Hollyday's resignation has been forced, not because of any indifference to abuses of the FHA system, even though that is the announced reason. We wonder whether the real motive behind this summary firing is the fact that Mr. Hollyday is known to have opposed the administration's plan to transfer from the FHA to the Housing and Home Finance Agency the authority and the responsibility placed by the Congress with FHA. The effect of Mr. Hollyday's firing is to remove a man who opposed this centralization of control which he believed to be wrong, and the weakening of the agency he was appointed to administer.

Mr. Hollyday's summary dismissal will be regretted by everyone who knows him, knows what he stands for, and knows what he has endeavored to accomplish for the Administration. It is a blow to good government and to the cause of enlisting intelligent and honest people in the Government.

My question is, You say Mr. Hollyday opposed the administration's plan to transfer functions from the FHA to the HHFA. As a part of this study, we would like you to tell us exactly what you know about that plan and why you are so certain that is the reason the President of the United States discharged Mr. Hollyday.

Mr. NEEL. I will be glad to tell you what I know about it, Senator. I should like to point out that the statement has a paragraph prior to the one which you read. I should also like to point out that that statement is not phrased in terms of a certainty, but is phrased in terms of a question.

The paragraph immediately preceding the one that you read points out that the announced reasons for Mr. Hollyday's dismissal related to, first, a program which had been terminated by Congress in 1950, and also related to the operation of the title I program which we in the Mortgage Bankers Association have been familiar with, and were familiar with, and the steps which Mr. Hollyday had taken to correct the so-called abuses in the program. Therefore, the announced reasons for Mr. Hollyday's dismissal—and I take it there is no question but what he was dismissed, in view of his testimony and Mr. Cole's testimony that I have just had an opportunity to read—in our opinion, those reasons were sufficiently inadequate to cause us to wonder whether there was not another reason behind his dismissal.

Now, as I state, although the question you have asked me does not relate to the purpose for which you invited us to appear, we will be happy to discuss it if that is your pleasure.

The CHAIRMAN. Well, this was just called to my attention. You seem to impugn the motives of the President of the United States in his dismissing the man.

Mr. NEEL. No, sir; we didn't do that.

The CHAIRMAN. What we would like to know is—if you don't care to answer now, I will say this to you: When we get into the real investigation of this business, then we certainly will call you, having made this statement, and ask you many questions about what you know about it, because you make this direct charge against the President of the United States, that he discharged Hollyday for one reason and had another one in mind.

Have you any positive facts or any information, or was it that you just wanted to shoot off?

Mr. NEEL. No; the association which I represent has never "shot off" in my experience with the association.

The CHAIRMAN. Why do you make such a statement if you have no facts to back it up? Do you have facts to back it up?

Mr. NEEL. We made the statement because the announced reasons for Mr. Hollyday's dismissal were so unbelievable to us that we could not help but wonder whether there was not a reason and we still wonder whether there was not a reason. We are familiar with a proposed Presidential reorganization plan and the circumstances surrounding its preparation and its proposed transmittal to the Congress. I am prepared and would be happy to tell you what I know about that matter, and what reasons we had for making the statement we made, if you wish it at the present time, or I will do it later.

The CHAIRMAN. I think maybe—what is your pleasure? If you are prepared, I think we will listen to it.

Mr. NEEL. All right, sir.

The President's Advisory Committee, among the subjects which it studied and which it reported on, considered the subject of the reorganization of the housing agencies.

You will find, if you examine that report, that contained therein a complete report of a subcommittee, the chairman of which was

r. Neilson, of Denver, Colo., and that that subcommittee made an intensive investigation of what the proper organization of the housing agencies ought to be.

The exact language of the conclusions to which the committee came, of course, are contained in the report, and if I have varied from what the conclusions were that they came to, as specifically stated in that report, it would be simply because my memory is somewhat at fault. But basically speaking, with regard to the FHA, and the other constituent agencies of the Housing and Home Finance Agency, that committee reported—and I might say that Mr. Cole was the chairman of the committee, of course—that the authority of the Housing and Home Finance Agency over the constituent agencies, FHA, Home Loan Bank Board, Public Housing Administration, and other administrations, ought to be clarified and strengthened so that there would be no question but that, where matters of basic policy were concerned—and I emphasize those words because that is at the heart of the current issue—where matters of basic policy were concerned, there should be no question as to the authority of the Housing and Home Finance Administrator to advise and to control the operation of the constituent agencies.

The committee, however, went out of its way to point out that that did not mean the day-to-day operation—this did not mean that the Housing and Home Finance Administrator should have control over the day-to-day operation of the constituent agencies, whether it was the FHA, the Home Loan Bank Board, or the Public Housing Administration.

You are familiar with the fact that that report was made sometime in the fall. I can't recall the exact date—October or November. Subsequently, the administration first got busy on preparing a housing program to present to the Congress, to a large extent, although not entirely based on the recommendations of that committee.

It has also been a matter of common knowledge in our industry that the administration has been preparing a proposed reorganization plan to submit to the Congress which would carry out or be based on the recommendations the Advisory Committee made.

It has also been a matter of common knowledge to the industry that there were certain officials in the administration who very properly had different ideas about what ought to be contained in the reorganization plan—the details of it.

Naturally, people are going to differ. My father used to tell me that he practiced law for 30 years before he realized that somebody could differ with you and be honest, and it took him another 10 years to find out that somebody could differ with you and may be right. That is a long process, but I just emphasize that in pointing out that there were different opinions.

Now, it was a matter of common knowledge that there was some tendency on the part of certain administration officials—and I am not, by use of the word "certain," criticizing; I am simply emphasizing there were different views—who felt that the power and the authority of the Housing and Home Finance Agency over its constituent agencies ought to be increased considerably beyond the recommendations of the Advisory Committee.

As evidence of that, I point out to you that, when the tendency of that might be in the President's report became known, the savings

and loan institutions of this country became alarmed over what might happen to the authority and the independence of the Home Loan Bank Board, and it is no secret that in expression of that alarm, their industry expressed itself in no inconsiderable terms by means of letters, telegrams, oral expressions, as they had every right to do, and should have done; that an attempt to lessen the independence of the Home Loan Bank Board, or to go beyond the provisions of the report of the President's Advisory Committee, would be a mistake.

Now, by the same token, it was known to the industry that the same fears which prompted the savings and loan institutions to express themselves to the President of the United States, and for all I know to Members of the Congress, and certainly to other administration officials, prompted us to see what might be in store for the institution with which we had done the most business throughout the years, and for which we had the utmost respect, and I refer to the Federal Housing Administration.

To a large extent, Senator, we are working in the dark. We have never seen a proposed reorganization plan. I am personally convinced that there is a plan in existence. It is certainly the privilege of the Administration not to make its contents known in detail until it is submitted to the Congress.

The CHAIRMAN. Do you have any knowledge of your own that there was any misunderstanding over this report that you say you have never seen, between the President and Mr. Hollyday?

Mr. NEEL. Well, Senator, when you say the President, I would prefer to say "certain administration officials." Obviously, the President of the United States has larger worries than the independence of the FHA, and therefore, when we speak about the administration, we mean the people who carry out the policy of the administration in these matters, and therefore, when I say—when you ask me do I have any knowledge that there was any difference of opinion, I believe there was a difference of opinion.

The CHAIRMAN. Do you know, of your own knowledge?

Mr. NEEL. I have reason to make the statement I do, sir. My position is not based purely on hearsay. However, it is not susceptible to documentary proof, naturally, until the contents of the proposed plan are known.

We did, however, take the opportunity to point out to the President's Assistant, Gov. Sherman Adams, that there were certain questions which this industry felt ought to be answered.

The CHAIRMAN. Was this before or after Mr. Hollyday's dismissal?

Mr. NEEL. Before his dismissal, sir.

Mr. CHAIRMAN. Did you know at that time that they were considering dismissing him? Was that the purpose of your visit with Governor Adams?

Mr. NEEL. No, sir. The purpose of our visit with Governor Adams was to discuss with him the fact that if a proposed plan contained certain provisions, it was our opinion it would meet with the opposition of many in the industry, and we hoped that the administration would not present a plan which would require industry opposition. I can make available to you, if you desire, the letter—

The CHAIRMAN. Understand, this resolution—was this a resolution of the board of directors?

Mr. NEEL. This was a statement made by Mr. Clarke, as president of the association, and approved by approximately 1,000 members of the association who were in attendance at a meeting in New York the morning Mr. Hollyday's dismissal was announced.

The text of the statement, as you will see from reading it, goes to the manner in which Mr. Hollyday was dismissed. The association was indignant with the manner of Mr. Hollyday's dismissal. We are still indignant about it.

In my opinion, we would make the same statement today. If you know a man, if you trust a man, if you have known what kind of a person he is for many years, if he is unjustly treated, in your opinion, if he has been the president of your trade association, and if, with those facts, you fail to make a statement such as this association made, I think you would be subject to criticism. Not if you make it.

I am authorized to say to you that under similar circumstances, the association would make the same kind of statement it made——

The CHAIRMAN. Regardless of waiting until they knew the reasons?

Mr. NEEL. Senator, the text of the hearings to date have simply confirmed my own beliefs in this regard.

The CHAIRMAN. In what respect?

Mr. NEEL. In respect to the announced reasons for Mr. Hollyday's firing; they are so unbelievable as not to have been the real reason.

The CHAIRMAN. You don't mean the hearings, today; you mean the current hearings?

Mr. NEEL. I mean the hearings of the last few days before you, sir.

The CHAIRMAN. The current hearings.

In other words, you are still of the opinion that Mr. Hollyday was fired because he opposed a certain specific reorganization plan?

Mr. NEEL. I wonder if he was not fired for that reason, sir, because the announced reasons, the facts have not borne them out, and the method and the manner in which he was fired was, in my opinion, both personally, and as general counsel of the Mortgage Bankers Association, unjust, abrupt, and I will terminate my adjectives at that point.

I have one further comment to make about this: We did submit to Governor Adams a statement of our opinion on the proposals. I will make it available to you if you wish. Since that date, nothing has occurred. We know of no further action regarding it, and therefore, what I have related to you seems to me will give you a brief background of the climate which caused us to express the words which are contained in that statement.

The CHAIRMAN. Did you ever make a statement representing the Mortgage Bankers Association, that the alleged irregularities, if true, were very unfortunate and that the matter ought to be investigated and ought to be looked into?

Mr. NEEL. Such a comment is contained in the statement which I will present to you today, sir.

The CHAIRMAN. But you didn't make it up until this time?

Mr. NEEL. We have made no public——

The CHAIRMAN. Did you concurrently with this statement say that the allegations, if true, should be looked into and investigated?

Mr. NEEL. Up to that time, the only thing that had been made public was Mr. Cole's statement that Mr. Hollyday had been lax and

unusually negligent in administering the FHA program. The details of what has occurred since then were not available at the time that statement had been made.

There is no reason why I should hesitate to tell you, however, that, of course, irregularities ought to be investigated. We do not and never have, as an association, condoned any negligence, neglect, fraud, collusion of any kind.

The CHAIRMAN. But you didn't, at the time you made this resolution, when these 1,000 people were present, you didn't pass any such resolution, did you?

Mr. NEEL. No, sir, we did not. What we were referring to was the method of dismissal of Mr. Hollyday.

The CHAIRMAN. Why didn't you pass a resolution saying that these alleged irregularities, and so forth, were very bad? In other words, you left the inference, you see, with the country and the people reading it, that evidently these alleged irregularities, that there wasn't anything to them, and that Mr. Hollyday had been wrongly treated. I was amazed this morning when I came here and discovered a press release that the builders had gotten out which we talked about this morning, the National Association of Home Builders, leaving a similar impression.

The facts of the matter are, you see, it wasn't the President of the United States, or Mr. Adams, or this committee, that committed the so-called alleged irregularities, but they happened in the field.

We are just trying to do our duty here and accept our responsibility by looking into them and nothing else. In other words, I would think that you people who have been dealing in these mortgages and the builders, would be even more concerned about their reputation and their integrity, and getting this matter straightened out, than we are.

Mr. NEEL. We are concerned about it, Senator.

The CHAIRMAN. You have never yet made a single statement to the press.

Mr. NEEL. There was no reason to do such, Senator. We had an opportunity to appear before you. What we were talking about in Mr. Clarke's statement was the method of Mr. Hollyday's summary dismissal. I do not agree—

The CHAIRMAN. Wasn't it a fact that the alleged irregularities meant nothing to you?

Mr. NEEL. That is not true. The statement does not imply we condone irregularities. There had been no discussion of irregularities at the time the statement was made. The only thing we referred to was the inference that Mr. Hollyday had been remiss in his duties, and we respectfully submit that he had not been.

The CHAIRMAN. Well, of course, that we have no way of knowing. We haven't gotten into the investigation, today, excepting that your statement and resolution was so positive.

Mr. NEEL. It was positive, Senator, because we believed an injustice had been done to an honorable man.

The CHAIRMAN. You say he was dismissed for one reason, but there was another reason they didn't tell the people about.

Mr. NEEL. We wonder if this is not the case.

The CHAIRMAN. It is a serious allegation.

Mr. NEEL. I agree, and it is a serious allegation for the administration to make against an honorable man by summarily dismissing him.

The CHAIRMAN. And they having the facts as to why they were doing it, and you having none, you still make that statement?

Mr. NEEL. Yes, sir, I still make that statement. However, I do have some general comments regarding the reasons for which you asked us to appear today. That is, to attempt to discuss what you can do to prevent these alleged discrepancies.

The CHAIRMAN. Of course, that is what we are interested in, now. How we can avoid this sort of thing happening in the future? We want to get this bill passed and then when we get through with that, we are going to get into the real investigation of this matter.

We would like to—and I think you are going to do it—we would like to create an atmosphere in which you people who are in the business of handling mortgages and building apartments would cooperate with us in at least saying that you are interested in stamping this sort of thing out, instead of getting out resolutions and statements, as the builders did, condemning the President of the United States and Senate committees, and committees for taking this action.

Mr. NEEL. Mr. Chairman, we did not condemn this committee. We are in entire agreement with your expressed purpose. We will cooperate with you. We have cooperated with you in the past. I am only sorry that a series of meetings which was set up long prior to these hearings keeps Mr. Clarke from being with you. He has just concluded a meeting—

The CHAIRMAN. Mr. Clarke testified on this subject in 1950.

Mr. NEEL. Yes, he did, sir. We have testified a number of times.

The CHAIRMAN. He testified on section 608 and he was just as positive as you were in this resolution that there was nothing wrong and that everything was all right.

Mr. NEEL. I would like to refer to some of the earlier hearings, Senator, in which MBA—

The CHAIRMAN. Why don't you proceed?

Senator LEHMAN. Mr. Chairman, I think it is only fair to the witness to point out that the testimony up to this point shows that Mr. Hollyday was never given any reason for his dismissal. That he was dismissed summarily by Mr. Adams without any reason being given to him, either by Mr. Adams or by Mr. Cole. I think the testimony shows that, and I think it is only fair to the witness to point that out.

Mr. NEEL. Thank you, Senator.

I will proceed, then.

The CHAIRMAN. Well, that isn't technically the question. We have had testimony, of course, from Mr. Hollyday and Mr. Cole. We haven't had any testimony from Mr. Adams.

Mr. NEEL. It might be interesting if you were to get some, sir.

The CHAIRMAN. It has been said that he is the man who did it, and frankly, we do not know what the facts are. That is why we are going to have the investigation.

Mr. NEEL. I think you should, sir.

The CHAIRMAN. We have been just a little bit disappointed in that there has been no statement by your association and others directly affected by this matter, with respect to the seriousness of these alleged deficiencies, if true. There have been plenty of statements and in which you have been very critical of the administration,

and of the dismissal of Mr. Hollyday, and of the starting of the investigation. I am saying you and the others.

Mr. NEEL. Don't say "we," sir. We made one statement, and it had nothing to do in any respect with criticism of your investigation. We have made but one statement to which you refer.

The CHAIRMAN. Suppose you proceed, and let's get on with the business, here.

Mr. NEEL. My name is Samuel E. Neel. My office is in Washington, D. C., and I am the general counsel of the Mortgage Bankers Association of America. I am appearing this morning at the invitation of your chairman on behalf of the MBA, to testify regarding what amendments, if any, are desirable with reference to H. R. 7839, as passed by the House, in order to prevent the recurrence of certain undesirable practices which are alleged to have occurred in the past in connection with the FHA section 608 program and the title I program.

I should first like to take this opportunity to point out that the Mortgage Bankers Association of America is an organization the members of which are all types of lenders which have made and own many hundreds of millions of dollars of loans which are insured by FHA and guaranteed by the Veterans' Administration.

It would be a great mistake if I did not take this opportunity to point out the soundness of the FHA program in general. Bear in mind that under this program, since its inception in 1934, over \$18 billion in residential loans have been insured. This program has made the ownership of homes possible for hundreds of thousands of citizens who otherwise would not have been able to afford a home of their own, and I note from the testimony, Mr. Chairman, that yesterday, or the day before, the chairman also expressed his confidence in the general soundness of the program. We certainly agree with him.

Even assuming the existence of mistakes in the program—which we, as an association, believe to have been greatly overemphasized—it is obvious that in the great majority of instances, FHA loans have been soundly made and represent a tremendous benefit not only to the homeowner, but to the entire economy of the Nation. It would be tremendously unfortunate if, in the heat of the present controversy, we should permit this country to lose confidence in the FHA program and to destroy its future usefulness.

The CHAIRMAN. Don't you think the best way to restore confidence is to effect whatever steps are necessary to correct the evils and bring any offenders to justice?

Mr. NEEL. I agree with that 100 percent, Senator.

The CHAIRMAN. Is that what you mean by this statement?

Mr. NEEL. What I mean by that statement, sir, is that where it is proved that discrepancies have occurred, and where things have occurred that ought not to have occurred, that that should be corrected and the offenders apprehended, but that the confidence of the public in the program, as a whole, should not be destroyed, because a certain small number of irregularities—and when I say small number, I personally believe investigation is finished, the discrepancies which I have been proved to be a small number.

The CHAIRMAN. That we do.

Mr. N

correct. I am hoping

The CHAIRMAN. I hope your statement is 100 percent correct. The less we find, the better we will like it.

Mr. NEEL. All of us feel that way, sir.

The CHAIRMAN. At the moment, of course, we do not know. We know we have 1,149 mortgaging-out cases on section 608.

Mr. NEEL. Yes, sir. I will refer to those, I think, in a moment.

We should not forget that the troubles which are now being considered have come first from a program which is no longer in effect and, second, from a program with respect to which corrective steps have already been taken.

This committee would be doing the country a great service if it could publicly comment on the general soundness of FHA and put the present trouble in its proper perspective. The facts justify no other conclusion. I suppose I should say "to us," Senator.

The CHAIRMAN. I was going to say, what facts do you have?

Mr. NEEL. We have the facts made available to you, and we do not have some of the facts, I suppose.

The CHAIRMAN. You do not have the 1,149 section 608 cases, do you?

Mr. NEEL. Of course, I don't. I am going to talk about the reason that it is difficult to tell what happened in those 1,149 cases in a moment.

Specifically analyzing the events which have been alleged to have taken place in the section 608 program, it should be reiterated, first, that we are talking about a program which is no longer in existence. It is far more important, therefore, to turn the major focus of this inquiry to eliminate the source of possible dangers in the current program, rather than to dwell on past errors of omission or commission.

Second, we should like to point out that, assuming the absence of collusion or fraud—which has yet to be demonstrated to have occurred—the possibility of a builder building a section 608 project for a cost less than the amount of the mortgage was always inherent in the program. As I have said earlier, Senator, if you discover evidence of collusion or fraud, you should be as active as you can in doing what you can to criticize the fact that it took place and to prevent it taking place.

Right here, it was of interest to me to note an article which appeared in the Denver Rocky Mountain News on Tuesday, April 20, just as I left to come to this hearing. That is a news release talking about a \$10.5 million loan by the Equitable Life Insurance Society of New York for a 20-story, mile-high center skyscraper. This is a conventional loan. But here is what the news release says.

The CHAIRMAN. Do you mean it is not an FHA loan?

Mr. NEEL. No, sir, it is not.

Arthur J. Rystum of Denver, the senior vice president of Webb & Knapp, said the loan is "more than ample to complete the project."

That seems to me to be very interesting, because it shows you that the fact that a mortgage will at least cover or more than cover the amount of the cost of the property is not a matter which is specifically limited to the operation of the FHA program.

The CHAIRMAN. Yes, but don't you completely miss the point, in that the law that we passed that you are working under said 80 percent, and don't you completely miss the point under section 608, and that is, the rents that were established are based on the mortgage and the larger the mortgage, the higher the rents?

Mr. NEEL. The law passed said the mortgage should not exceed 90 percent of the "estimated necessary current cost" of the project, which FHA should determine in advance. And in no instance to my knowledge, has it been proved that the mortgage exceeded that figure, 90 percent of the estimated necessary replacement costs, as determined by FHA, before the project was ever undertaken.

The CHAIRMAN. Let me ask you this, then—

Senator BENNETT. Mr. Chairman, while you are looking at that, I wonder if you would let me read that news release?

Mr. NEEL. Yes, indeed, Senator.

The CHAIRMAN. Here is a project where the mortgage was \$4,207,000. The actual cost was \$2,953,000, upon which they made, according to their own internal-revenue return, upon which they paid an income tax or offered to pay an income tax under capital gains, they made \$1,316,874.48. Now, is that correct? Was that a proper thing?

Mr. NEEL. Well, now, in the first place, Senator, I don't doubt that those figures are true, although those are figures which not only have been available to the general public, but were not available to the FHA.

The CHAIRMAN. They were in the income-tax returns.

Mr. NEEL. Those returns were not available to the FHA, Senator.

The CHAIRMAN. I understand that.

Mr. NEEL. They don't know what a project costs. This Congress never told the FHA that it ought to find out what a section 608 project cost, nor was it permitted for them to find out. The point that I was trying to make, sir, was that the figure you gave me of a mortgage of \$4,270,000 was not more than 90 percent of the FHA's estimated current replacement cost when they estimated the cost of the project. It turned out to be more than the project cost, but that, according to the statute, was no business of the FHA. They had no access to those figures. They don't know today what a project costs. The Internal Revenue Service is the only office of the Government that knows those figures. And that is still true today, sir, as I point out later in this testimony.

The CHAIRMAN. Why did Mr. Clarke, then, testify back here that there was no such thing as what I have just called to your attention happening in the industry, back in January 1950?

Mr. NEEL. Well, I don't know the testimony to which you refer, sir.

The CHAIRMAN. Are you taking the position—you are taking the position, then, that that particular transaction, that that particular builder, did not violate any laws or any regulations, that that was a perfectly legitimate transaction?

Mr. NEEL. There is no question about it, Senator. I am not saying that was a reasonable profit, but the question you asked me, the answer to it, in my opinion, is "No question about it."

The CHAIRMAN. In other words, in all these cases—for example, here is another one where the mortgage was \$3,357,400, and it cost \$2,309,000.

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The CHAIRMAN. I am taking it that the appraisal they made was 90 percent, or the mortgage was supposedly 90 percent of the appraised cost, so we know what the mortgage was; it was \$3,357,400, which supposedly was 90 percent of the appraisal; is that correct?

Mr. NEEL. Let us assume that it was. Yes, sir, that ought to be a correct statement.

The CHAIRMAN. But this \$1,047,000 is \$1 million over the actual cost, so if you go back and take the 10 percent off, it is even worse.

Mr. NEEL. Well, if what you are saying is that the FHA estimate—

The CHAIRMAN. Made a million-dollar mistake on a \$3 million project. Do you think that is possible?

Mr. NEEL. I don't see that he made a mistake, sir. I would describe it this way, that they estimated before construction had started; that on the average, the estimated replacement cost would be the figure that you mentioned, the amount of the mortgage plus 90 percent. It turned out that the actual cost for one reason or another, assuming the absence of any collusion or fraud, sir—now, we can't assume—

The CHAIRMAN. Let's take this one. Here is one where the mortgage was \$557,000. The cost was \$398,000, the profit was \$158,000. Do you think it is possible for an appraiser to make a mistake of \$158,000 on a \$550,000 project?

Mr. NEEL. It isn't a question of whether he made a mistake, sir. If you assume that every appraiser makes a mistake when he estimates that the project is going to cost more than it did, then you will stop every bit of construction. I don't know what is reasonable or unreasonable. The FHA was not required to determine what was reasonable or unreasonable, because not until you gentlemen put it in the law of the Military Housing Act was any cost certification required by the Congress of projects which the FHA insured. Therefore, the information you have there is information which was never available to the FHA.

As I mention later on in my statement, the appraisal business is an inexact science.

The CHAIRMAN. This is very interesting. We are glad to get this sort of testimony.

What you are saying is that even though, on a \$2 million estimate it only costs \$1 million, you would still say that the builder would be within the law?

Mr. NEEL. There is no question about it, Senator. Do you think he was not within the law, eliminating the question of reasonableness?

The CHAIRMAN. Is it your opinion, then, that these FHA appraisers just made these kind of mistakes?

Mr. NEEL. I don't like the use of that word "mistake." There is no question that they made the appraisal, sir. There is no question, however, but that the dangers in the section 608 program had been pointed out. I can show you three instances in which MBA went on record stating they would not recommend the extension of the section 608 program for various reasons, and I have the testimony here if you wish me to read it.

The CHAIRMAN. We have been over that and you are right about that.

Mr. NEEL. When you have a loan which represents a high percentage of loan to cost, let alone value, and when you have a program

which the Congress told FHA to go out and promote because they wanted housing built, in our opinion, the kind of thing that happened is almost inevitable. We think it could be corrected. We have some suggestions here as to how it might be corrected.

The CHAIRMAN. You have your suggestions as you go along?

Mr. NEEL. Yes, sir, I do.

The CHAIRMAN. Well, we have been talking about one. Of course, we put that into the Military Housing Act, where they had to certify to their costs when the project was finished.

Mr. NEEL. That is right.

Senator BENNETT. I asked Mr. Neel to hand me the clipping to which he referred earlier.

Did I understand the purpose of your comment to be that you considered this particular financing an example of a case where a private firm, without Government guaranty, would loan more than value of the project?

Mr. NEEL. I gave it to you, Senator, because it seemed appropriate to show that in many cases it is not only common but has common acceptance that the amount of the mortgage will cover the cost of the project.

Senator BENNETT. The word and phrase you read to us was "more than ample," and the impression I got from your reference was that this was the first loan on the project. Now, here is a project that is partly finished.

Mr. NEEL. I don't believe it is started, sir.

Senator BENNETT. Let me read it to you.

Ragstrom stated the loan is secured by present construction in the skyscraper involving more than \$3 million, by the value of the land at 17th and Broadway at more than \$1½ million, and the value of the present Sears, Roebuck Building, more than \$1 million.

Mr. NEEL. Those are other properties they are referring to. This loan is to build a new building, I believe, sir.

Senator BENNETT. Let me read to you again—

secured by present construction in the skyscraper, involving \$3 million.

So there isn't a case where private lenders are deliberately loaning more than the estimated total cost of the building. This is a case where he is loaning enough to finish a building that has already been started, and that is a completely different situation, and I wanted to clear that up.

Mr. NEEL. I am glad to have your comments, sir. The language that I quoted appeared to be peculiarly apt to the circumstances.

Senator BENNETT. But you didn't read down the rest of the same column or you would have discovered that there are other substantial values, including values in the building, construction of which has already started. So the man would be justified in loaning enough to complete the building on the basis of the values already created. That is an entirely different situation.

Mr. NEEL. I will accept your comments, sir.

The CHAIRMAN. This is very interesting, that you do not think that the builder violated the law, even though there are these big discrepancies between the appraised amount as arrived at by FHA appraisers and the actual cost.

Without objection, I would like to place into the record at this point—and I'll not take the time to read it—colloquy taken from our rings that have to do with this thing that we are discussing. The material referred to follows:)

HABITAT BANKING AND CURRENCY, SUBCOMMITTEE HEARING ON S. 2246, JULY 29, 1949

Excerpt from testimony of Franklin D. Richards, Commissioner, Federal Housing Administration; Clyde L. Powell, Assistant Commissioner in Charge of Federal Housing Administration; Burton C. Bovard, General Counsel, Federal Housing Administration:

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Senator LONG. When you say 'actual overhead,' you are in effect saying what estimated actual overhead would be; because this has to be approved before project ever starts construction, as I understand it?"

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Mr. RICHARDS. That is right.

Senator LONG. And if the overhead should not run that high, it is too late at that date to change what the actual construction cost would be?

Mr. RICHARDS. You see, what happens then, when we get our estimates, it is like estimates of cost. It is not a mathematical science. We get all of our figures together, and then we figure from that a maximum mortgage amount; but if we should actually figure, we will say, 1 percent too high on overhead, that would reflect in the total cost upon which we set the mortgage amount, you

Senator LONG. I see. This also has down here that there are allowances added on the appraised value of land in use as a rental development, rather than acquisition cost.

As I understand that, a man is permitted on the amount of the mortgage to make what the price of the developed land is rather than the price he actually paid for it. For example, if I go to a section of town where there is a substantial amount of vacant property developed but not where he is, if I could buy that relatively cheap, say \$1,000 an acre, and I developed it, I would not be inclined to more or less look at the developed cost which might be \$5,000 an acre, rather than the cost that I paid for it, I take it.

Mr. RICHARDS. I would like to ask Mr. Powell to tell you about that specifically. Let me say this, of course, that most all land where relatively large projects are developed is what we call normally raw land, and it has to be improved. It costs money to put streets, utilities, sewers, so on and so forth, in there. So our value is based upon the land ready for use. Will you go into detail about that?

Mr. POWELL. You explained it pretty well there, Mr. Richards. We take actual going market price of the land in its present state; and in order for it to be usable in a multifamily rental housing project, it might have to have streets paved on the outside; we might have to bring up a sewer line, water lines, and so forth to permit it to be used.

Senator LONG. To make it ready for use. You would permit that cost in value of the section 608 project?

Mr. POWELL. Yes.

Senator LONG. Would you allow the expense of forming the corporation?"

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Mr. POWELL. That is part of the cost. However, the statute goes on to say we cannot make a loan in excess of 90 percent of the overall cost of the project, which includes land, legal and organization, contracts, and builder's fees. It goes on further to say that the maximum amount of that mortgage cannot exceed the cost of construction on the site, exclusive of land and legal and organization expense.

Mr. RICHARDS. It further restricts it.

Mr. POWELL. So it cannot come out of the mortgage proceeds. It is an inherent cost the sponsor has to make himself. Therefore, we are not so terribly worried in what he pays his attorney.

Senator LONG. Would you mind explaining that to me over again, please?

Mr. POWELL. There is a proviso right in the act."

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Mr. BOVARD. Section 608 of the act says:

"The mortgage shall not exceed 90 percent of the amount the Commissioner estimates to be necessary current cost of the completed property of the project, including the land, the proposed physical improvements, utilities within the boundaries of the property, architects' fees, taxes, interest accruing to construction, and other miscellaneous charges incidental to construction approved by the Commissioner: *Provided*, That said such mortgage shall not in any event exceed the amount which the Commissioner estimates will be the cost of completed physical improvements on the property or project, exclusive of off-site public utilities and streets, and organization and legal expenses."

"Senator LONG. That is not quite too clear to me, but maybe it will clear up as I go along."

"Mr. BOVARD. It could be 90 percent of the overall, but not to exceed 100 percent of the cost of the construction, of the physical improvements."

"Mr. RICHARDS. If 90 percent of the overall is greater than the actual physical cost of the improvements, the actual physical cost of the improvements is the maximum amount of the mortgage."

"Senator LONG. I see. Would that include contractor's fees, for example, and architect's fees, the physical cost of the improvements?"

"Mr. RICHARDS. But not organization."

"Senator LONG. That is to protect you on organizational cost to make sure they do not run too high?"

"Mr. RICHARDS. That is in the statute."

"Mr. BOVARD. And the cost of the land would not be included."

"Senator LONG. If it ran over 100 percent?"

"Mr. BOVARD. Yes. That protects on possible overvaluation of land."

"Senator LONG. I see. But that does not include something like the architect's fees or the builder's fees?"

"Mr. RICHARDS. That is in there, and we set those, you see."

"Senator LONG. I see. Let me ask you this question: Suppose a man who goes to build a section 608 project is not an attorney, or like I was before I got to be a Senator, he was just an ordinary person. Suppose he is a contractor and that is his speciality."

"Mr. RICHARDS. That is the way most of them have been built."

"Senator LONG. Would you permit that contractor to include the 5 percent plus the 3 percent, the 8-percent contractor's fee in the estimated cost of construction?"

"Mr. RICHARDS. That is right."

"Senator LONG. Now, in actual operation, if a man does what a friend of mine has done—that is, he builds his own—and I believe that is a prevalent practice, frankly—if he builds his own project and he maybe pays the 1-percent architect's fee and maybe pays none, but let's assume he pays the 1-percent architect's fee—if he builds his own project, the 8 percent, the contractor's fee in effect, and the 4 percent, what he can save out of the architect's fee by virtue of the fact that he feels qualified to build it himself without the aid of an architect, then that would be 12 percent of the cost."

"Mr. POWELL. You are using the 4 percent for the architect, presuming it actually costs 1 percent to produce the drawings?"

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"Senator LONG. That is right."

"Mr. POWELL. You would have 5 and 4 percent. The other 3 percent is actually expended on overhead on the job."

"Senator LONG. You estimate that would be expended. But if he can get by on less than that, if he can get by without expending the 3 percent on his overhead of the contractor—"

"Mr. POWELL. He can save that on the cost of construction."

"Senator LONG. Of course, that is a point I was getting around. I have never seen a contractor yet who stayed in business over a long period of time and got to be very successful bidding on a job but what if he performs, he usually manages to get that building up in a little less than the estimated cost, and there is a little saving produced there usually. I mean it is a general practice among contractors. Some might run over it."

"Mr. RICHARDS. However, we have a large volume of business, as you know, and maintain cost estimators and analysts in each of our offices; and it is their duty and responsibility exclusively to be in the field and check these costs all the time."

"Now, as you indicated, a very successful contractor knows how to operate his business on a basis where he does not lose money. The actual cost of construction, including these items that you have mentioned here, vary from builder to builder.

"I suppose if you took 10 builders in New Orleans or any other city who could produce exactly the same structure, you would find it would cost each one of them something different. So we try to get what we estimate would be the cost to the typical builder, not to the very most efficient or not the poorest builder, but the typical builder."

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"Senator LONG. * * * What I had in mind is, I have a friend who constructed section 608 project. I must necessarily say, when I mention this, I do not intend to get specific about this matter, and I would like to have it understood that that is the case.

"But I have a friend who constructed one of these section 608 projects, who told me that he managed to construct his project for 70 percent of the estimated cost.

"Mr. RICHARDS. His estimated or our estimated?

"Senator LONG. Of his approved estimated cost. He estimated it, but FHA approved it.

"Mr. RICHARDS. You see, when the job comes in, they estimate cost and we estimate cost. Now, in closing the transaction, we close on our estimated cost, because he may estimate considerably less than us.

"We have many, many instances where these fellows thought that they could build at a lower figure, and actually when it came out, it cost them more.

"Senator LONG. I will tell you, to begin with, this particular person who made that statement to me, is, in my opinion, one of the most efficient builders I have ever known. The evidence of that is that he has made more money in the building business than any young man I know, and undoubtedly he is extremely efficient.

"But do you think that it is possible, even for the most efficient type builder, to actually construct his project at 70 percent of the estimated cost?

"Mr. POWELL. No; I do not think so."

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"Mr. RICHARDS. I do not think so.

"Mr. POWELL. I do not see how that is possible, because we are right on top of actual construction costs. We get a determination from the Secretary of Labor as to the wages that he must pay for all the mechanics on the job. If he does not violate the statute, he must pay that wage rate.

"We estimate the length of time it takes to construct that job, and make an estimate of all the materials that go into it, such as plumbing, heating, plastering, electrical work, and all that. Our figures are on the current market, not on the national market, what it costs in this particular community. We might be off 2 or 3 percent. I do not think it could be physically possible to be off anything like 30 percent.

"Senator LONG. To begin with, here is your 5 percent which is allowed as a contractor's fee. That is allowed for his own effort. Actually the man is entitled to compensation for his effort. I would not deny him that for a moment.

"Mr. POWELL. We expect him to earn that.

"Senator LONG. Plus that, here is a fee of, let's say, 4 percent that he does not actually have to pay out in architect's fees. Of course, this man saved a whole 5 percent, to really be confidential about it; but here is 4 percent, let's say. There is 9 percent of it.

"Mr. POWELL. He might save 1 percent on his overhead.

"Senator LONG. If he can save 1 percent on his overhead, that is 10 percent, if he can do that under the law. He already has a 100-percent loan. Is that not true?

"Mr. RICHARDS. He has a 90-percent loan, we will assume all things being favorable. He has a 90-percent loan of cost. And there is one other element in there—providing their costs do not exceed December 31, 1947. If they do, then they cannot get more than 80 percent of those costs.

"But assuming the cost did not exceed 1947 cost, December 31, then he would have 90 percent of cost in the way of a mortgage. The other 10 percent of these items that you have identified here might reasonably be construed to be profit.

"Therefore, under this act, a builder can get the full reproduction cost of the structure and the land, and leave in his profit as an equity.

"Senator LOMA. In effect, then, he can borrow the full amount of his cost, if he contributes, if he might consider his profit as being left in, you might say. In other words, he is to get his profit back later.

"Mr. RICHARDS. That is right.

"Senator LOMA. But now, if he can find in these items of construction, by careful supervision and by cutting costs and by being, let's say, more efficient than you would expect a normal average builder to be, if he can reduce it below that, then to that extent he would be exceeding his cost, would he not?

"Mr. RICHARDS. That is right. In other words, let's put it on this basis, that if these costs are figured as typical builder's costs, and it works out a full 100-percent loan of actual cost, and the 10-percent profit is left in there as equity, than he cuts under. He is the most efficient builder rather than the typical, and he cuts under a percent or two. He can get that much more. That is correct.

"Senator LOMA. In other words, if a man who would qualify as better than the typical builder.

"Mr. POWELL. Might be able to make a saving.

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"Senator LOMA. I want to say right here now that frankly I believe this project was intended to be extremely profitable to builders; and that the purpose was based on the American tradition that if you want to get a job done, if you will show American businessmen where they can make a hefty profit, they will really get out there and do you a job. That is what has undoubtedly caused this country to grow the way it has.

"In wartime we always have high profits, and we always exceed any production we have ever known in previous times. I agree with that.

"But do you know of any other ways where a man by prudence or by care or by any other manner of handling his project might come below or might further reduce his cost in building one of these structures?

"Mr. POWELL. I do not see how he could, unless our local estimate of the cost of the construction of the structures would be far in excess of what it would actually cost to build.

"Senator LOMA. There have been many instances like that, have there not?

"Mr. POWELL. Not many, I know of none.

"Senator LOMA. You do not know of any?

"Mr. POWELL. No.

"Senator LOMA. Have you recognized it in the past?

"Mr. POWELL. We have not made the construction of any particular that I know of.

"Senator LOMA. I am not sure of this, but I am sure of this, however.

"Mr. POWELL. I am sure of this, however, that the purpose of this act is to do so.

"Senator LOMA. I am not sure of this, but I am sure of this, however.

"Mr. POWELL. I am not sure of this, but I am sure of this, however.

"Senator LOMA. I am not sure of this, but I am sure of this, however.

"Mr. POWELL. I am not sure of this, but I am sure of this, however.

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"Senator LOMA. I am not sure of this, but I am sure of this, however.

"Mr. POWELL. I am not sure of this, but I am sure of this, however.

w. that varied of course in different offices; but that was the national average. "Since September they have been going down; and according to our presentures they would show about, nationally, a 7 or 8 percent decline.

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"Senator LONG. You do not think a man could construct a project then, even if I include his own profit, for 30 percent below what the actual estimated cost the project was?

"Mr. POWELL. Well, Senator, if he did, I would say that our office had made pretty serious error in estimating the cost of the job. It has never been called our attention, and I do not see how you could miss an estimate of cost on ordinary housing project of any 30 percent.

"Senator LONG. Of course, actually, just on the merits of this situation, the requires you to give him the benefit of the 10 percent. There is no way in the world that you could keep from giving that man the benefit of that 10 percent if you followed the law.

"Mr. POWELL. We would not want to.

"Senator LONG. If he can cut off that architect's fee, if he can construct it without the benefit of an architect, and if he is a contractor himself and has to pay no contractor's fee, he could come below that; and if he can cut down his overhead, he can get down about 11 percent there, out of that 100 percent."

Page 447:

"Mr. POWELL. He might come out even.

"Senator LONG. He could probably make a small profit over and above the mortgage on the loan to begin with.

"Mr. POWELL. He might.

"Senator LONG. Now, if he is more efficient than the average—this is as I understand it what the average man would construct this at; but if he can qualify as a man who is more efficient than the typical contractor, he is entitled to that.

"Mr. RICHARDS. But you cannot actually tell mathematically—he cannot or cannot actually tell—what it is going to cost him. He has got to estimate it. He estimate what the typical fellow would spend, because we are dealing with thousands of fellows in areas."

Page 454:

"Mr. POWELL. I would rather put it this way, that if we make the estimate of cost of the production of the structure, I do not see how—

"Senator LONG. Now, your estimate of cost, though, is not for the best. Your estimate of cost is for the typical contractor, I have been told.

"Mr. POWELL. It is not for the worst; it is for the typical.

"Senator LONG. It is expecting the worst to lose money.

"Mr. POWELL. I am going to say if we make our estimate of cost for the typical, to not see how the most efficient under ordinary circumstances, unless there is something unforeseen that we know nothing about, could have a fluctuation that estimate of more than 5 percent. I do not see how it is possible.

"Senator LONG. Now, of course, that is all a matter of speculation. Mr. Richards ever here just told me that among the good contractors, there would be a difference of 5 percent, and I do not think the typical is necessarily the good contractor.

"Mr. POWELL. We call ourselves pretty good estimators, and we have to figure it against an extra good contractor.

"Mr. RICHARDS. Let me bring out this point, which I think may have some ring on it. In getting our cost data, we do not overlook the most efficient low. We talk to him. And the run-of-the-mill fellow, and the poorer sort of low. I mean, we are talking to the whole segment of the industry when we hear our cost data. Then we try to build up what is typical there, so that in typical is a reflection of the better contractor's costs, too."

The CHAIRMAN. For example, Mr. Powell, who has been in charge of this operation since its inception in 1934, who refused to testify before this committee day before yesterday, here is what Mr. Powell said back in 1949, in colloquy between Senator Long—Senator Long is chairman of the subcommittee.

Mr. NEEL. I remember that, sir.

The CHAIRMAN. Among other things I will read just this one.

Senator Long was questioning Mr. Powell at great length about making certain that this sort of thing could not happen, as did many other Senators in many hearings, and here is what Mr. Powell said:

I do not see how that is possible because we are right on top of local construction costs. We get a determination from the Secretary of Labor as to the wages that he must pay for all the mechanics on the job. If he does not violate the statute he must pay that wage rate. We estimate the length of time it takes to construct that job and make an estimate of all the materials that go into it, such as plumbing, heating, plastering, electric work, and all that. Our figures are on the current market, not on the national market. What it costs in this particular community. We might be off 2 or 3 percent. I do not think it could be physically possible to be off anything like 30 percent.

Mr. NEEL. Now, you find that they were.

The CHAIRMAN. It would appear from the Internal Revenue Service that there are so many, many hundreds of cases.

Mr. NEEL. Your question of me, Senator, was whether I thought there was anything outside the law. It is my understanding that the current controversy between the Internal Revenue Service and the builder is not whether what he did was illegal but whether the profit should be treated as capital gains or straight income, which is a different question, sir.

The CHAIRMAN. There is no question about that, but the interesting part to me is, the difference between the amount of mortgage they secured as a result of the FHA's appraisals, and the actual costs as shown by the income-tax returns, runs into millions and millions and millions of dollars. And they admit that it is a profit. And they continue to own the buildings.

Mr. NEEL. Well; yes and no. Section 608 buildings are frequently not owned by the corporate people who built it, but that is beside the point, I think. They made the profits.

The CHAIRMAN. These returns are returns by the corporation which owned the building.

Mr. NEEL. They made the profit. There is no question about that.

The CHAIRMAN. It isn't quite clear to me how you can make a profit on a mortgage where the mortgagor still runs to you. They still own the building. They have agreed to pay the mortgage. They still own it.

Mr. NEEL. There are many ins and outs of that section 608 program. The program terminated back in 1950. What we were talking about was whether the money in excess of the mortgage amount had been received by a builder in violation of any statute or rule or regulation of the FHA. I can't see that it was, sir.

The CHAIRMAN. Your opinion is that there was no violation of the statute, there would have been no violation of the statute regardless of how much spread there was between the mortgage and the actual cost?

Mr. NEEL. You are asking me as an individual, sir.

The CHAIRMAN. Yes.

Mr. NEEL. I can't see it, but on the other hand I do not claim to be an expert on these matters. On the other hand if there had been any violation, it would seem to me that you would have a lot more action on the part of the Department of Justice than simply the question of whether there was a capital gain, or straight income.

Senator LEHMAN. May I ask a question?

The CHAIRMAN. Yes.

Senator LEHMAN. When the mortgage companies ask for a loan is their custom to inspect the property, inspect the plans and the probable costs, or depend exclusively on the estimate of the appraisers of the FHA?

Mr. NEEL. Senator Lehman, in most instances where the amount involved is substantial—unless permit to exclude the title I program—in most instances investors make their own inspections and appraisals.

Senator LEHMAN. The companies?

Mr. NEEL. Yes. Do I correctly answer your question?

Senator LEHMAN. Yes; but your answer comes as a surprise to me, because under those circumstances, I just do not understand how they made these loans so far in excess of the actual cost of the properties. I am somewhat disappointed because I have always had reasonably high opinions of the intelligence and the acumen of mortgage bankers. I would be surprised if they arrived at these estimates on their own initiative, estimates which are far in excess of the actual costs shown by the statements we have before us. I wonder whether you are right in saying that they did not depend almost entirely on the estimates of the FHA.

Mr. NEEL. I think the practice undoubtedly varied in many instances, sir. I am not surprised that you wonder. I think what happened in the case in which section 608 was active, when it was the expressed purpose of the Congress and the Government to get housing built rapidly, as we look back on it, is a cause for considerable warning. I would point out this, though, sir, that the mortgage is based on a certain percentage—90 percent—of the estimated replacement cost. Now, when a lender decided whether we would make that mortgage, he frequently examined the property to determine what he thought would be its actual value in future years. I point out there that while a number of these loans have undoubtedly gone into default—the exact number, of course, I don't know—there are many hundreds of thousands of them which have never gone into default, so the lender's judgment is to the value of the property upon which he based his decision as to whether to make the mortgage, has in many instances been borne out as to what would happen since the projects were built.

Senator LEHMAN. There is a grave question in my mind as to whether it is a fact that the Government guarantees these mortgages and does not believe the lending companies have any sense of responsibility whatsoever.

That does not seem to me to be the intent of this or any other legislation.

Mr. NEEL. I don't believe it should be and I think if you will ask the representatives of large lenders like life-insurance companies, and banks, to come before you—I will go out on this limb and say that almost unanimously they will tell you that they do make their own investigations, and that while they rely on Government insurance to persuade them to make a greater amount of a loan than they would ordinarily make on a property, that they make their own independent investigation as to whether the property is worth what the mortgage represents so that if in the case of default, whether they will take a loss, or not.

Senator LEHMAN. Let me put it this way: I have been a Member of the Senate only for 5 years and a member of this committee only

for 2 years. The section 608 program ended in 1950, but it is my—without being able to speak from actual knowledge and experience—it is my strong feeling that it was never the intent of the Congress when it passed this bill, so far as it related to section 608 and certain other sections, that because of a Government guaranty, a builder could, because of the coverage that comes to him on a mortgage payment, bail himself out entirely and in addition have a very substantial profit, as is undoubtedly the case now, over and above the regular profit which a builder was entitled to make because of his work.

Mr. NEEL. The only comment that is interesting in that connection, Senator, which ought to have some significance, is that the Congress must have had some realization of this program because when you came to put into effect the military housing program, you did recognize this problem and you did prevent that from occurring, which is perfectly proper. Now if you had prevented it from occurring in the one program—

Senator LEHMAN. Which one are you talking about?

Mr. NEEL. The military housing program—someone must have realized that if you didn't do that same thing in the section 608 program it could have happened in the section 608 program. Of course, the timing is important.

Senator LEHMAN. My judgment is this: I don't know whether any of these builders violated a criminal law. I think we will be able to develop that possibly a little later on, but certainly it would seem to me that there was something defective in this act which we passed in 1934, amended and continued in force until 1950, under Democratic administrations and Republican—not administrations, but under Democratic and Republican control of the Congress—was defective in that it permitted the builders to, without any risk to themselves, at all, to bail themselves out with a very handsome profit over and above the normal building profit.

You take a case of a property that is estimated at \$1 million, on which the man was entitled to get \$900,000 on a guaranteed mortgage, and he put up that building and it cost him \$700,000. He still had his \$900,000 to pay off his mortgage of \$900,000, and then have the building free and clear, without any cost whatsoever, and if he sold it at a legitimate profit of \$100,000, he would get \$1 million for a building that actually had cost him only \$700,000, without a cent of investment in it.

There is something wrong in a law that permits that.

Mr. NEEL. There may have been, sir. I don't quarrel with your statement, but that is what it did. However, I would point out this, that if you ask the Internal Revenue Service or the Federal Housing Administration, to give you a list of those projects, those section 608 projects, where a builder ended up by putting a tremendous amount of money into the project in excess of the mortgage, you would have a list many times as

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attention to it. We dis-

possibility of holding out sufficient funds to be sure the would not be for more than 90 percent of the actual cost. cult to work that out. The Department opposed it, your opposed it, I think, and others.

2, title VI, of the National Housing Act, as amended: employed to assist in maintaining a high volume of new construction, without supporting unnecessary or artificial estimating necessary current costs for the purposes of such Federal Housing Commissioner shall therefore use every means to ensure that such estimates will approximate as possible the actual costs of efficient building operation."

recommended by this committee and it was adopted as an to the Housing Act.

ndering if there were any changes in the appraisals as a at amendment.

1. Now, Senator Bricker, I am not capable of answering on, sir. This thing happened in the administration of an missioner. The operations of the section 608 program argely while I was occupied, not in the position that I am— rds, I was not counsel or did not become counsel for MBA n the fall of 1946, when I came out of the Navy, and so hose questions I think could much better be answered by etter qualified than I.

BRICKER. Well, the representatives from the Federal Hous- istration have constantly contended before this committee, the testimony that the chairman introduced here a moment ere were no violations, or couldn't be any violations, more ly 2 or 3 percent. I am just wondering whether they disregarded this section, paid no attention to it after alled to their attention and having had it written into the

instances to them time and time again where there were als. If that be true, it was the most flagrant violation on the appraisers, of the directives of this Congress.

2. I can see how, if I were in your position, Senator, I to ask some questions of the people who were running the ck in 1950 and before.

IRMAN. Of course, that is what we wanted to ask Mr. Powell since 1934, and he hid behind the fifth amendment and estify.

ave up here tomorrow, or day after tomorrow, Friday, the ly under Mr. Powell, the next man in command, and we at he knows about this.

organization approve the cost certification feature of the using in section 908 programs when it was enacted, or would per?

3. I would have to have my recollection refreshed, Senator. to think we did but I don't know.

IRMAN. The New York Mortgage Bankers Association

4. There is one matter in connection with the section 608 at I would like to call to your attention specifically, sir, and to skip over to the paragraph that begins on page 3 of my

The CHAIRMAN. I just want to say one thing and then I want you to proceed because we want to get the benefit of your help: If you are correct—and I am not a lawyer—if you are correct that there is no violation in the law, regardless of how high the mortgage was above the actual cost—

Mr. NEEL. And assuming no collusion or fraud.

The CHAIRMAN. Yes. You have to assume that.

It would seem, then, that there has certainly been some great, great, great errors made on the part of the FHA appraisers, so I guess maybe your suggestion of getting these appraisers in here is a good one. We will do that when we get into the investigation proper. We will try to find out how they have made such grave mistakes as they evidently made on this matter.

Why don't you proceed to tell us how to correct this section 608 situation.

Did you say you were going to talk about title I, too?

Mr. NEEL. Yes, sir.

The CHAIRMAN. You don't enter into that because there are no mortgages involved.

Mr. NEEL. No mortgages involved, although those mortgage bankers who are bankers do make those loans. I would like to read the paragraph in the middle of page 3 because it does point up one matter that I would like to refer to.

In connection with this section 608 program there is one further point which we specifically want to bring to your attention. At the time this program was enacted, Congress went out of its way to note that the country was desperately in need of rental housing. The program was intentionally made liberal in order to encourage builders to build these projects. With this congressional mandate the FHA undertook an intensive promotional campaign. The FHA thus not only became underwriters but they became promoters, and when they became promoters they lost sight of certain standards. As promoters, they had certain goals to meet. In order to meet the goals they could not help but loosen their standards. This will always be the result when you mix sound underwriting with promotion and this is the lesson the Congress should remember. I will refer to it later.

The CHAIRMAN. Let me ask you this: Is it a fact that FHA officials and appraisers and employees encouraged builders to go into this program on the basis that they could mortgage out and make money on their mortgages? We have heard rumors to that effect.

Mr. NEEL. I would answer that question this way, sir. There is no question but that the FHA all over the United States encouraged builders to go into this program. They made sales talks. It was just like a bond rally. They were trying to get houses built and they were trying to get builders in the program.

What reasons they gave for asking the builders to go into it are beyond my knowledge. They did conduct an intensive promotional campaign, however.

Senator BRICKER. You say here that they were very liberal and loosened their standards. What do you mean by that?

Mr. NEEL. Those words perhaps are words of opinion, Senator.

Senator BRICKER. Well, what is the opinion?

Mr. NEEL. Well, what I mean is when you came to a close question about whether in an estimated replacement cost of a project, you

ould allow a certain architect's fee, I think in order to help get the oject started, in many instances you might find that the amount in ere specified for the architect's fee might or might not have been eater than the architect's fee actually incurred. The same thing lates to other cost figures which went into—I mean cost allowances rich went into those figures, on which the FHA appraisal was based tirely. They were trying to—now, this is a matter of my opinion, I ppose—they were trying to meet a goal and they were just as much terested in seeing those starts under section 608 as anybody else who d been asked to get a program done and wanted to see it done.

When I used those words, that is the kind of thing I mean.

The CHAIRMAN. In other words, they allowed, say, a 5-percent archi-t's fee.

Mr. NEEL. That is correct. It may not have been in, actually, you e.

The CHAIRMAN. Actually they employed architects I think in that ea at around 1 percent because there were many of them out of ployment.

Mr. NEEL. That is right.

The CHAIRMAN. Is there any other feature of the additional ap-raised valuation, to encourage building?

Mr. NEEL. Senator, at the time they were figuring out the various llowances they used to make their total appraisal back in those days, ere were a number of elements which you could ask the FHA to tell ou, which entered into the total values used in the appraisal. They re not in the picture with reference to a section 207 loan as much. or example, you could list the question of what allowances they made r off-site improvements, or the cost of off-site improvements.

The CHAIRMAN. What do you mean by that?

Mr. NEEL. Sewers, waters, streets, curbs, gutters, and so forth. I ink it might be interesting to the committee if you were to ask the HA people to furnish you with the average figures that they use for llowances on those kinds of things that went into the appraisals of ose section 608 projects. I would have to admit that I don't know e complete details of what they were, but they were there.

Senator BRICKER. Well, the promotional activities, then, of FHA, you can properly call them promotional activities—were to infer at there would be very liberal appraisals put on the properties?

Mr. NEEL. I think that is a fair statement.

The CHAIRMAN. Those are some of the things we wanted to ask Mr. owell but he didn't want to talk.

Mr. NEEL. Now, up at the top of page 4, sir. There are two FHA ultifamily housing programs still in existence. One is section 207 id one is section 213.

With reference to section 207 the possibilities of a builder mortgag-g out are minimized for two reasons: (1) The ratio of loan to value fixed at a maximum of 80 percent, and (2) the FHA appraises the roperty on the basis of its long-term value, and certain costs are ex-ided from consideration in the valuation process.

Those are the costs I was talking about that were in the section 608 ogram.

With these two criteria kept in mind it is our opinion that the ances of extraordinary profits to builders in this program are note.

The other multifamily housing program under which the FHA insures loans is section 213. Under this program, which is the cooperative housing program, the FHA may insure a loan for 95 percent—that is the maximum, Senator. The ordinary loan is a little bit less than that.

The CHAIRMAN. It is, providing 65 percent of the cooperators are veterans?

Mr. NEEL. Yes.

Under this program, which is the cooperative-housing program, the FHA may insure a loan for 95 percent of the value of the project and these projects are usually sold to what may be called uniformed buyers. Please notice the difference between the terms available under section 213 and those available under section 207. By reason of these differences it is our opinion that the same dangers which existed in the section 608 program are inherent in the section 213 program.

It is a matter of record that this association, when discussing section 213 before this committee, has consistently opposed the provisions for especially liberal insurance terms for cooperative housing projects.

And I was somewhat surprised to note that it was I who testified to that before this committee, in the hearings on S. 2246 back in 1949 and here is what I said, then. I guess if it wasn't as good as it is, I probably wouldn't quote it, but I said this, "We question, however, whether a cooperative simply because it is a cooperative, particularly in those instances where a cooperative can later sell its own houses to individual members, should be entitled to any special benefits over and above those to which individuals are entitled."

Therefore, we should like to reiterate this previous testimony. As we have pointed out previously, it is when the FHA gets into a promotional business that trouble is likely to result. In section 213 we have a program which Congress has told the FHA to try to "sell" because it is a "cooperative" program. We believe this approach is a dangerous approach. We, therefore, have not and do not favor the liberal provisions of section 213.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Before you leave this promotional aspect, do you think part of this process by which standards were loosened may have drawn out of the fact that we have 2 loaning agencies, 2 guaranteeing agencies, and that both FHA and the Veterans' Administration have been trying to develop their program in competition each with the other so that when somebody could come to the VA and say, "Well, the FHA would make me a better deal," the VA would go back and see if they couldn't sweeten up the deal, and vice versa?

Mr. NEEL. I think that is perfectly possible, Senator, but I would like to say this, the place where the things happen that you people are worried about happened in the multifamily program, and that type of loan was not

Senator BENNETT. I would like to look at the whole program before we see that might lead to deterioration of the appraisers of the business competitively, the program before we afford to see all

Mr. NEEL. Senator, you are talking right up my alley, sir. I agree with you 100 percent. We have long advocated, and I guess this is as good a time as any to get in this plug, that in many instances it is unnecessary and unwise to have two competing organizations in the field of guaranteeing and insuring loans. You will find testimony of this association, for example, that in our opinion, for example, the field forces of the VA and the FHA, the inspectors, the appraisers, the guaranties, ought to be handled by one organization, whether it is the FHA or the VA, and there is no reason why an appraisal should be made by one organization if it ends up as a VA loan, and another organization if it ends up as an FHA loan. Both the FHA and the VA are agencies of the Federal Government and standards ought to be the same.

Senator BENNETT. And they are looking at the same pieces of property.

Mr. NEEL. Absolutely. I agree with you 100 percent.

Senator LEHMAN. I do not want my remarks to be taken as an indication of my considered judgment on this whole subject, but isn't it a fact that when the Government makes either direct loans or guaranties loans or insures loans, there is bound to enter into the transaction, certain policies of promotion.

In other words, they are encouraging private industry to do this work, and that is promotion, in my opinion.

Mr. NEEL. I think that is correct, sir. What we were pointing out is that in certain FHA programs—particularly in that section 608 program, and we believe it is inherent in this section 213 program—there is unusual emphasis on the fact that these special programs ought to be put over. As I will tell you later, we think the same situation will exist if you gentlemen authorize the section 221 program which we opposed when we appeared before you.

It is the fact that the FHA, when it was originally set up, was set up to insure a sound loan on a sound property where the borrower had adequate ability to repay. Now as you move away from that opinion and put a program in effect where you might say the need is determined—I mean the fact that you ought to make a loan is determined by whether the gentleman who wants the property needs it, not on whether it is a good loan or whether he can repay the mortgage, then you get into trouble, sir.

That is the situation with reference to section 221 loans. Here you are considering a 100-percent, 40-year loan. Well, if you got into trouble with loans that were 90 percent of value or cost, what are you going to get into when you get a 100-percent loan?

I am glad to say that we pointed that out to you gentlemen 2 weeks ago.

Senator LEHMAN. I want to say this, that I have always felt that all these guaranteed or direct or insured loans involve promotional factors, whereas a public-housing program does not involve promotional factors. As you may know, I have been pretty strongly in favor of an increased public-housing program.

Mr. NEEL. Senator Lehman, I don't want to argue the public-housing controversy here but if you think the people who believe in public housing don't promote it, I think you are mistaken, sir.

Senator LEHMAN. They don't promote it to the extent that they offer particular incentives or particular profits to private industry.

Mr. NEEL. Well, for example, the public-housing program is financed by tax-free bonds, which are a tremendous incentive. I don't think that comes in here, though.

Senator LEHMAN. In all these things, if there is a loss to the Government and tax-free bonds are involved and indebtedness is involved, the Government maintains the control of the situation.

I agree with you, this is not the place and the matter will be taken up in the deliberations of the committee I assure you.

The CHAIRMAN. Let me make a correction. You said with reference to section 213, 95 percent of the value of the project, using the term "value" under the present law. It is 95 percent of an estimated cost.

Mr. NEEL. I believe the bill would change that; would it not, sir?

We point out later that we are heartily in accord with that change.

The CHAIRMAN. Under the new bill, estimated value is less liberal than the cost basis, although possibly still too liberal.

Mr. NEEL. With the above comments in mind, the question is, What can you do in general to prevent the type of thing happening that is alleged to have occurred in the section 608 program. You can do two things: (1) You can keep the ratio of loan to value within reason. (2) You can require the Washington office of FHA to review and pass upon the appraisals made by field offices on all projects of over a certain dollar volume. For example, all projects of over \$1 million.

Another suggestion has frequently been made in connection with rental-housing projects; and that is that the cost certification procedure which Congress put into effect in connection with military housing could be required in both section 207 and 213 loans. This would indeed be possible but we believe it would be undesirable for two reasons: First, such a cost certification procedure penalizes the efficient builder and, second, such a system encourages a builder to pad his costs which may result in a whole train of difficulties.

Right here I should say, sir, that if, notwithstanding those two points, this committee—

The CHAIRMAN. Would you spell that out a little further. You say, "First, such a cost certification penalizes an efficient builder."

How do you penalize him when he continues to own the building? He is penalizing himself, isn't he? If he gets a million-dollar mortgage on a \$600,000 cost, he has to pay the million dollars back.

How are you penalizing him?

Mr. NEEL. The situation we are attempting to describe, sir, is that the FHA, when it fixes its appraisal on the basis of long-term value, or value, shall we say, if you required a builder to make a certification of his costs and to apply the mortgage, everything in excess of cost, it seems inevitable that the higher the builder's cost, the greater the amount of the mortgage, and therefor the efficient builder who can build for less—

The CHAIRMAN.
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The CHAIRMAN. Well, you mean he sells the property?

Mr. NEEL. He sells the corporation.

The CHAIRMAN. There is no reason why if he had a \$600,000 mortgage and he felt the property was worth \$800,000 and somebody was willing to give him \$800,000, he could still sell it, could he not, for \$800,000?

There is no reason a man should sell something at a price that is the same as the mortgage on it.

Mr. NEEL. I am not sufficiently familiar with how the cost certification procedure works in the military housing program.

The CHAIRMAN. We are not either and that is why we want more information on the subject.

That is why we are thinking about it and talking about it so much. There isn't any question about the intent of Congress, at least my intention was, and I think it is true of every member of this committee and I think the testimony proves it, what we wanted to do was to give every man 90 percent of his cost. That is what we wanted to do.

No more or no less, you see. That is what we wanted to do. I agree with you, I am afraid the language was otherwise.

Senator BRICKER. Mr. Chairman?

The CHAIRMAN. Senator Bricker.

Senator BRICKER. Is it your contention in these two suggestions here, that there would be a tendency on the part of the owner to transfer the excess profits, or excess cost to a contractor and to the subcontractor?

Mr. NEEL. That is right, sir.

As I say, I think you ought to find out how this provision that you put in the military housing law has worked, and if in your opinion it has worked well, the members of this association, or I think anyone else in this industry would not object to this type of proposition.

The CHAIRMAN. In these 1,149 cases that we have, they were separate corporations and they had very little money in them.

Some had more than others but on a \$2 million or \$3 million project they would have less than \$25,000 in the corporation that owned them.

Mr. NEEL. I may be wrong in this but I think any mortgagor under section 608 or 207 has to be a corporate mortgagor.

The CHAIRMAN. That is right, and the FHA owns a hundred dollars worth of stock in each of them, we think.

Mr. NEEL. They own preferred stock.

The CHAIRMAN. We have in the 1,149 cases, the amount of capital they put in each of these, and it is an interesting thing. There is no credit behind the people who own the corporation. They put in the smallest amount of money they could put in to operate on until they could get their building started and then they got progress payments and when it was finished they got the full amount. In many instances it was much more than the mortgage on which they claimed a profit. Now, you go back and find in looking over these records, that their dividends were in many instances many, many, many times the initial capital invested.

Mr. NEEL. I am sure that is true, sir.

The CHAIRMAN. And the Government is sitting here holding the bag because the Government is a 100-percent insurer of the mortgage, so your people are taking no chances and the Government is behind it.

Mr. NEEL. There are certain risks involved, although they are at a minimum, I believe.

If a section 608 project is foreclosed, the mortgagee does not receive 100 percent of his loss. There are certain costs which are not included in the debentures which the FHA issue in exchange for that property, but generally speaking, your statement is perfectly correct.

The CHAIRMAN. For all practical purposes.

Senator BRICKER. The higher the appraisal over the actual cost, the more vulnerable is the loan authority.

Mr. NEEL. That is correct.

The CHAIRMAN. We are going to be able in these 1,149 cases to find out exactly who bought the mortgage and then we will be able to see whether your statement that the person who appraised them took a good look at them is true.

Mr. NEEL. And you should also find out what happened to the property. I think what happened in this country over the last few years has made these things a lot better than anybody expected.

I think you will find the majority of them are in good standing.

The CHAIRMAN. You might find many of them are worth more than they were when constructed.

Mr. NEEL. That is correct, sir.

The CHAIRMAN. That is incidental to what happened, you see.

Mr. NEEL. I agree.

We have a paragraph there pointing out: With reference to the title I program our statement can be very brief. We consider that the steps which Commissioner Hollyday put into effect to correct the abuses in this program and which have been outlined to this committee will be adequate to protect the interests of the Government and the homeowner.

I think I noticed in the testimony that Mr. Cole agreed with that and the President's committee agreed with that and apparently everybody agreed with that. Therefore I would like to go on to the six points.

Senator BRICKER. What about the requirement of the bond?

Mr. NEEL. Senator Bricker, I noted that suggestion for the first time when I read this testimony an hour before this hearing started. I am not sure I know enough about it to know how to answer the question.

It sounds perfectly reasonable to me.

Senator BRICKER. The thought in suggesting it was that you would have a built-in inspection system.

Mr. NEEL. It certainly presents possibilities. I think if you ask the commercial banks who make these loans whether that would hinder the program unduly, they would be able to give you an answer.

There are six specific points, I believe, sir, in which we point out suggested contributions to this housing bill.

1. In appearing before you on March 11, 1953, Mr. William A. Clarke, president of the objections of this association to the proposed program known as section 221. The 100 percent 40-year loans. Mr. Clarke pointed out the participation of lenders considered a 4 percent unsound and inconsistent with

I should like to reiterate Mr. Clarke's statement at this point. If one of the reasons for the troubles of section 608 was the high ratio of loan to value, it seems to us that the proposed section 221 program contains even greater dangers. If you consider what could happen were a 90-percent loan was involved was unfortunate, what can you expect for a program calling for 100-percent loans?

This is particularly true since the proposed section 221 would again require promotional endeavors on the part of FHA.

For this reason we repeat our testimony against the enactment of this section.

4. By the same token, Mr. Clarke, when he appeared before your committee, opposed those sections of the bill which would authorize the Federal National Mortgage Association to conduct special assistance functions for the purchase of section 221 loans.

This proposal of the bill with its declared intention of making a market for section 221 loans would, in our opinion, mean that the normal market reluctance to make such loans and the close inspection which the normal private market would give to such loans would be entirely eliminated. Ground would again be broken for the abuses out of which you gentlemen are concerned.

Therefore we would oppose that part of the bill which authorizes the Federal National Mortgage Association to enter into almost unrestricted support operations of the 221 program.

5. In connection with section 213, as I have mentioned earlier, would be our proposal that the terms with reference to these loans be made by same as those available under section 207. In addition, Mr. Maurice R. Massey, in appearing before your committee, recommended an amendment to section 213 which would have the effect of allowing a builder of a section 213 project to begin a project under the provisions of section 207.

If this amendment were adopted, its effect in many instances would be that a project would be partially constructed before cooperators could be asked to purchase an interest in the property. We believe this provision would, therefore, result in better construction, since people who can see what they are buying always are in a better position to reject shoddy construction. Therefore, we again recommend the inclusion of the amendment to this section.

6. Also in connection with section 213 we note with approval that on the basis of the FHA appraisal on 213 projects would be changed by a bill from a basis of estimated cost to long-term value. We heartily approve this amendment.

7. On the basis of our earlier statements that the higher the ratio of loan to value the more dangerous the program, we would specifically oppose the amendment to H. R. 7839 introduced and passed by the House on the floor increasing the maximum dollar value of a 95 percent loan from \$8,000 to \$10,000 in the section 203 program.

If there are dangers, and if you gentlemen are worried about them, when you will be a lot safer if the maximum house value on which a 95 percent loan can be made is limited to \$8,000 as the bill originally provided.

8. When Mr. Hollyday appeared before the Appropriations Subcommittee of the Senate in the spring of 1953 he requested that Congress permit him to expend certain amounts of FHA's income for investigating expenses. This Congress denied Mr. Hollyday the total

amount requested, with the result that the number of investigators which he could employ to guarantee sound functioning of his programs was considerably reduced. We should like to point out that the FHA is one Government agency which does not require annual appropriations from the Treasury.

When it comes to Congress for funds what it does is to request the Congress to permit it to expend a part of the money which it has received as income. Therefore, it is our specific recommendation that the Congress should give FHA much more freedom in expending its own funds for administrative purposes generally, specifically with reference to providing an adequate staff for investigations.

Finally, this association should like to make the following point to this committee. The one thing that should not happen as a result of the current controversy is that the independence of FHA be destroyed. The troubles that have been pointed out and which have occurred have, in our opinion, occurred because FHA's main function of underwriting sound loans has been occasionally diverted by the imposition upon FHA of the responsibility of administering what might be called welfare programs; that is programs where money is to be made available on the basis of supposed need rather than on the basis of the soundness of the loan and the ability of the borrower to repay.

We cannot help but point out to this committee that, in our opinion, this tendency which has brought on the present trouble has been intensified since the Federal Housing Administration was incorporated in the Housing and Home Finance Agency. The present controversy, instead of proving to us that the Housing and Home Finance Agency's authority over FHA should be strengthened, proves just the reverse. The FHA, if it is to regain public confidence, should have control over its own programs and these programs should only be ones in which FHA is required to make a sound analysis of the proposed loan based on long-term value, and underwriting practices should if anything be strengthened.

Assuming that these principles are clearly set forth by the Congress you will do better by giving FHA its independence than by transferring control over its destiny to a supervising agency.

Senator BRICKER. Of course, during all this period that we are talking about now, it was an independent agency.

Mr. NEEL. Do you mean in the period prior to 1950?

Not after 1947, when the HHFA was created.

Senator BRICKER. It was independent in its zoning authority. What are the welfare programs that you say have been imposed upon by the HHFA?

Mr. NEEL. Senator, again it is a question of wording. When I say a welfare program, I refer to a program where, whether the man ought to get the loan is determined more on whether he needs the loan than on whether it is a good loan or whether he can repay the loan.

To a certain extent, as we have pointed out to this committee and to other places, to a certain extent, the section 221 program, in our opinion, the "special" terms of the cooperative housing program is special. Should a cooperator be given more special treatment because he is a cooperator? I think it

quite a question. I think my answer to the thing is one which—I don't know that it is the absolutely correct answer, but in my opinion those who want to engage in a cooperative program should be entitled to the same benefits that anybody else is, but I must say I am not sure that they ought to be especially entitled to more favors.

Senator BRICKER. Wherein has the program in any way been affected by the subordination of the FHA to the HHFA?

Mr. NEEL. Some months ago I prepared quite a long memorandum on that subject which I would like to file with you, if I may.

The CHAIRMAN. It is not in the files now?

Mr. NEEL. No, sir; it is not.

The CHAIRMAN. I would like to have that very much.

Without objection, let us place into the record at this point, the report of the Subcommittee on Organization of the Federal Housing Activities in the Federal Government, by the President's Committee—just that portion that has to do with that, because they made some recommendations on the subject.

Mr. NEEL. That is the subcommittee.

Senator BENNETT. Mr. Chairman, I would also like to suggest that Mr. Neel submit and there be placed in the record at this point the memorandum on the welfare concept or relationship between FHA and HHFA.

The CHAIRMAN. Without objection, it is so ordered.

(The documents referred to follow:)

REPORT OF THE SUBCOMMITTEE ON ORGANIZATION OF FEDERAL HOUSING ACTIVITIES IN THE FEDERAL GOVERNMENT

Your subcommittee has heard a number of witnesses from within the Government and has polled a number of outside organizations and industry groups to obtain their views on the question of how best to organize the Federal Government's housing activities. While the recommendations from these various sources vary widely, there is one fact which is common to the diverse reports and recommendations—no one is satisfied with the present form of organization and assignment of responsibilities.

It is the opinion of your subcommittee that there are three principal problems which should be resolved in developing recommendations for the reorganization of the Housing Agency. These are:

1. The present Housing and Home Finance Agency is headed by an Administrator who is responsible for "general coordination and supervision" of the activities of the entire Agency. Your subcommittee has been impressed with the fact that "general coordination and supervision" appears to mean all things to all men and results in a situation which is satisfactory to no one. It is completely unclear as to what the responsibilities of the Administrator are and by the same token those responsible for constituent operations are equally unclear as to what their specific responsibilities for Agency operation are intended to be.

2. Even the task of carrying out the undefined responsibilities of supervision and coordination are somewhat ineffectually discharged because of the fact that the Administrator's immediate office has since 1947 been saddled with a substantial number of operating activities which have tended to divert that office from the major task of administering a central agency.

3. A serious question has been raised in several quarters as to whether it is possible to administer a smooth-running organization which contains such incompatible elements as grant-in-aid programs and business type activities. This difficulty has been characterized as tending to create a situation in which the Government is administering neither sound credit activities nor sound welfare activities.

MORTGAGE BANKERS ASSOCIATION OF AMERICA,
Washington 5, D. C., April 21, 1954.

HON. HOMER E. CAPEHART,
*Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington, D. C.*

DEAR SENATOR CAPEHART: At the conclusion of my testimony today before the committee in behalf of the Mortgage Bankers Association of America, I was requested to forward to the committee for inclusion for the record a paper which had been prepared for the association, and which I mentioned in my testimony upon the subject of how, what I described as the "welfare concept," had infected some of FHA's loan programs.

The paper to which I referred was incorporated in a speech prepared by Mr. Miles L. Colean, economic consultant for the association, and delivered before the American Finance Association on December 29, 1952.

A copy of Mr. Colean's speech is enclosed herewith for inclusion in the record.
Sincerely yours,

SAMUEL E. NEEL

A REVIEW OF FEDERAL MORTGAGE LENDING AND INSURING PRACTICES

(By Miles L. Colean)

The Federal Government has been a significant participant in the urban residential mortgage business for a little over 20 years, beginning with the creation in 1932 of the home loan bank system. Its participation in farm mortgage activity goes back even further, to the establishment of the land bank system in 1917. From these, which now appear to be modest beginnings, the Federal structure has vastly grown in magnitude and greatly diversified in character.

The original agencies I have mentioned were orthodox in character and followed the concept of the Federal Reserve System, though on a somewhat restricted basis, since they could lend on collateral but could not discount without recourse. The Government's relationship was to be of an indirect nature. It would create the structure and it would retain certain appointive power. The structure it created would not deal directly with the people but only with institutions, which in turn dealt with the public. (There were minor exceptions to this principle, but in the beginning they were not important.)

In one important respect, however, both the land bank system and the home loan bank system differed from the Federal Reserve System. The Federal Reserve System never has to rely on Government aid. Because, however, of the voluntary nature of the new systems and the necessity for creating a structure which the volunteers could be induced to join, the Government in both instances invested heavily in the shares of the regional banks. As a result of this supposedly temporary device, Government influence on land bank and home loan bank policy has been intrusive; and even after the time at which all Federal capital had been returned, the systems remained under the direct scrutiny and supervision of executive agencies of the Government. The primary agencies for providing reserve credit for mortgage institutions thus never achieved the at least quasi-independence of the Federal Reserve System.

From this beginning, the trend of Government intervention was toward both more obvious administrative supervision and more direct dealing with the public. The Federal Farm Mortgage Corporation and the Home Owners' Loan Corporation both leaped into the financing vacuum created by the depression to make loans directly to distressed mortgagors. The RFC Mortgage Co. was created with the idea of assisting in reorganizing defaulted loans on commercial and apartment properties.

It is to the credit of the Government in those years that it stoutly resisted pressures from real estate and building interests to put these agencies into the business of making new loans. Only in the instance of the RFC Mortgage Co. was this principle not maintained, for it did ultimately make a few loans on new apartment properties. It is also true that the RFC itself was authorized to make loans on apartment properties. Its limited dividend companies, however, long-range policy, the Government and to avoid infusions of Government capital.

The Federal Housing Administration's brilliant escape from the Government created a

upon as a brilliant case, the Government all mortgage

had access, the expenses and liabilities of which were to be covered by the premiums collected by the lenders from the borrowers. The system was envisaged as ultimately belonging to the people participating in it. In order to prevent the sources of funds for insured mortgages, the original legislation contemplated the formation of a new type of institution, national mortgage institutions, federally chartered, privately financed, and empowered to trade insured mortgages with private lending institutions and to raise funds for the purpose by the issuance of debentures.

It was not long, however, before the strictly indirect and impersonal concept of the operations was seriously diluted. The corporate form first contemplated for the FHA was changed to a single administrator, thus making the operation more amenable to political influence. The assumed policy of awaiting submissions from lenders was replaced by one of aggressive direct promotion with the public, aided by a nationwide appraisal organization that examined and approved individual cases. More and more the lending institution tended to become the agent between the builder and FHA, which settled the terms of the deal. There were strong influences at work to bring about even more drastic changes in the system. On one side the pressure for public housing was building up and, as the depression refused to yield to less drastic measures, the advocates of direct governmental action became increasingly vocal. It may be forgotten now, but a deep cleavage existed in the early New Deal between those who thought of public intervention mainly as a means for getting the old economic system firmly on its track and those who welcomed it as a means for building both a new system and a new track. The FHA people were in the first group and in continuing warfare with their public housing counterparts made good news-coverage right up to the time of the forced marriage in the wartime National Housing Agency. As late as 1943 the then FHA commissioner plainly expressed reservations at being put permanently in the same administrative bed with public housing.

Internal struggle brought the supporters of FHA into a series of compromises. Since public housing offered a cure for social ills and economic depression, FHA must offer one also. Consequently, the agency began to be looked upon not primarily as an impersonal device for improving the functioning of the market mechanism but as a means of modifying the market to meet current social and political objectives. In other words, it undertook to compete with the hand-out welfare agencies in order to reduce their encroachment on the national economy.

The first full-blown public housing act was passed in 1937. In the early years of the following year, special FHA insurance provisions were enacted for properties valued at \$6,000 and less, and more generous terms were included for mortgages on rental property. At the same time, in order to assure a market for the new kinds of loans, the Government created the Federal National Mortgage Association. (For still undetermined reasons, no privately financed national mortgage association had ever been chartered.)

The complete arrangement for the social manipulation of the mortgage market had now been invented. The FHA could be directed into any type of mortgage operation that at the moment seemed socially desirable or politically expedient, and FNMA could assure the success of any such undertaking that the market would find acceptable.

The uses of such an arrangement (although the FHA-FNMA setup was not fully referred to) were extolled by Adolf Berle in testimony before the Senate National Economic Committee in 1940. Berle envisaged a banking system in which the flow of funds would be determined not by the market conditions of relative risks and competitive yields but by an official judgment of the social purpose of the loan, the terms of the loan being adjusted accordingly. The full potentialities of the FHA-FNMA combination in this direction were immediately recognized. Perhaps this was due to the fact that management of FNMA still rested in a separate agency, the RFC. At any rate, FNMA played a secondary market function in a fairly orthodox manner. It bought mortgages when the market was dull, it gave an initial impetus to lending in apartment property, it sold its holdings as the demand for mortgage investment grew livelier, and it made a handsome profit for the RFC, which subscribed its stock. Its operation was broadly stabilizing rather than speculative or discriminatory.

The old public-private investment controversy flared again, however, with the outbreak of World War II. Moving away from the mutual mortgage-insurance toward a loan-guarantee concept, a new type of FHA insurance was introduced providing for liberal financing of housing for defense workers. The

move was successful in reducing the amount of building that otherwise would have been constructed with Government funds; and since, because of war conditions, the mortgage market was starved for outlets, the eagerness of private institutions to take the new kind of insured loans made FNMA intervention unnecessary.

A different set of circumstances, however, came about with the great upsurge of social legislation following the end of the war. An entirely new system of guaranties for home loans for veterans was established in the Veterans' Administration. This system was based primarily upon need and made it possible to provide that the greater the need the more generous the terms. FHA's special wartime insurance was continued in order to augment the supply of veterans housing; and in 1948, FNMA, after being permitted to buy VA as well as FHA loans, again became an important factor in the market. In addition, the Home Loan banks were successfully urged to adopt a liberal policy on loans to members, with the result that an all-time high in outstanding credit was reached during the period 1948 to 1951. In 1949, the public-housing program was revived in what at first appeared to be a substantial manner, and pressure was organized to expand it into the so-called middle-income area. Countering this, more special types of FHA insurance were provided for equity investment, cooperatives, and military housing. In 1950, to make sure that no deserving case should go unfunded because of the lack or unwillingness of private lending facilities, the VA was authorized to make direct loans to veterans.

With the growth of the welfare idea, the trend in the FHA operation was steadily toward a particularized view of the market as compared with the relatively broad and unified view with which it had started. Instead of one general method of doing business, it now has a dozen or more distinct methods depending upon the type of property or the character of the borrower. Instead of approaching its task on the basis of measuring risk, it tended more and more to make determinations on a measurement of need.

The whole series of welfare-credit measures was taken in face of and without regard to the inflationary impact that they produced. In fact, the only consideration given to the impact was to assure its intensification. As each infusion of specialized credit gave another upward push to the price curve, guarantee limits were advanced, maximum permissive mortgage amounts were raised, and FNMA's facilities were more generously offered, so that the push became stronger. The lack of comprehension that the welfare-minded housing agencies showed of the basic facts of financial life only demonstrated how thoroughly the welfare approach to economic problems had pervaded and perverted official thinking.

Beginning in 1948, a number of moves were taken that carried FNMA farther away from its original purpose and emphasized its subservience to welfare policy. First, the agency was reconstituted as an out-and-out Government instrumentality and all possibility of creating privately financed mortgage associations was ended. At the same time, the types of loans that FNMA would buy and the conditions under which it would buy them were so circumscribed as to lose all flexibility in operating policy. Finally, a subsequent reorganization plan transferred management control of FNMA from the RFC to the Housing and Home Finance Agency. In 1950, a mild revolt in Congress against the inflationary excesses of the times temporarily ended FNMA's power to make advance commitments; but a long distance still remained between the FNMA of 1950 and that of 1940.

The net result of these changes was to bring about a close approximation of the credit setup that Berle had visualized. HHFA could determine the social need; FHA, which was under its domination, could direct its insurance activities accordingly; and FNMA, now also under its domination, could assure that the policies were carried out. How well this arrangement could work was revealed during the tight-money situation that prevailed after the change in the Federal Reserve's bond-support policy early in 1951.

The original FHA attitude toward interest rates was at least as orthodox as Adam Smith's. They were intended to be set at the market and restricted only so as to protect the uninformed from extortion. As the general structure of interest rates declined during the 1930's and early 1940's, the FHA maximum was revised accordingly. In 1944, when the VA loan-guaranty system was d. the interest rate was also set at the market. A mistake was made in leeway for upward adjustments, but this was later rectified.

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As the general structure of interest rates rose after March 1951, it was plain, despite official protestations to the contrary, that a market view of interest rates no longer prevailed. The 4-percent rate had become a vested right of veterans against which economic forces could not be allowed to prevail. A 4¼-percent rate for FHIA's new system of insurance for defense housing must be preserved because a higher rate would undesirably increase housing costs. Consequently, against a trend of 2 years' duration, the FHIA and VA maintained their subjectively determined rates, and the facilities of FNMA were invoked to make their determination tenable. In order to make FNMA fully effective in this respect, the power to make advance commitments was restored for FHIA and VA mortgages in defense areas.

The end of this long, somewhat confused history is that we have created a social credit system for mortgage finance. The power to decide who shall receive credit, how much credit shall be extended, what types of houses shall be financed, and in what locations the financing shall take place, all now reside in official hands. In this system governmental policy and administrative decision replace individual decisions on the market place. The only thing preventing the new system from becoming dominant is the congressional restriction on the scope of its operation. But the mechanism for dominance is present, awaiting only the desire for it to be exercised.

We are now at a crucial point in this development. An occasion appears to exist for a critical review of policies and institutions. In face of this occasion, a number of questions should be asked. Can a system of private mortgage credit operate satisfactorily alongside a system of social welfare mortgage credit? Or will not a governmentally dominated system ultimately drive private funds into other areas? Can the mortgage credit requirements of the country be met without the particularized methods that the Government has set up?

My own views in this matter are clear. I am convinced that the particularized welfare principles cannot be mixed with market principles; and I believe that the long continued attempt to mix them can only end in the vitiating or destruction of the market system. I firmly believe that in the long run the impersonal operation of the market system—if allowed to operate freely—will meet mortgage credit requirements more broadly and fully than an officially administered system.

In considering the maintenance of a market system, however, it is not necessary to abandon the contributions to an ample and stabilized flow of mortgage funds that can be made by a system of mortgage insurance and by a true secondary market facility. If these contributions are to be preserved, however, without continuing the risks inherent in our present arrangements, some drastic revamping of these arrangements must be made.

A separation of welfare functions and credit functions in the housing field should be undertaken. Moreover, the control over the mortgage-insurance function should not rest in the same hands as the control over the secondary market function, since the latter should always provide a check on the former. The substitution of a corporate form for the present administrative form of the insurance function would probably reduce the political pressure to which it is subject, while the injection of private capital and at least quasi-private management into the secondary market function would contribute to the same end. The insurance function should be greatly simplified, and a form of portfolio insurance rather than individual mortgage insurance might be considered. Finally some relationship should be established between the insurance and secondary market functions on the one hand and the central monetary authority on the other.

These are general principles. The working out of the details and the appropriate methods of handling these functions within the administrative structure of Government require study. It would be well to institute such a study at once, before some new crisis confronts us.

The CHAIRMAN. There are criminal provisions in the law for fraud or misrepresentation. What would you think of an amendment to include fraud and misrepresentation on the part of the mortgagor?

Mr. NEEL. I don't think I would have any objection, sir.

Senator BRICKER. No one can defend fraud or misrepresentation on anybody's part.

The CHAIRMAN. I don't know why, but the act has, ever since its conception, directed only against the mortgagee.

Mr. NEEL. I think this is probably the answer to that, Senator, to a certain extent: What the Congress was trying to do, you see, was to prevent a mortgagee from filing a claim with the Government which would be paid despite the fact that he was guilty of fraud. Now, therefore they said, "This claim will be paid, no matter who was involved in fraud if the fellow who presents the claim was all right."

It is like the rule in connection with negotiable instruments. If the instrument is good and is in the hands of a holder in due course without notice, it will be paid, even though it was made fraudulently. I think that was what was in Congress' mind when it passed that provision.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. I have been interested in your last recommendation which is a warning that we should be careful not to include what you call welfare projects within the responsibility of FHA. You spent quite a lot of time this afternoon talking about promotion projects. Don't you think we should have the same care to protect FHA from the responsibility of going out to sell building programs or housing programs?

Mr. NEEL. That is right. I don't think that ought to be possible.

Senator BENNETT. Apparently that has led us into one of the traps in which we find ourselves presently.

Mr. NEEL. I think it has, sir.

Senator BENNETT. In effect, we should—no matter by what means—restore FHA to the position of being an underwriting instrument, or organization. It should operate from those motives, only, and check the values of its underwriting without respect either to the needs of the borrower, or to the desire of some other part of the Government to develop a housing program for other reasons.

Mr. NEEL. If you would do that it would meet with the hearty approval of every person in the lending field—I think.

The CHAIRMAN. Are there further questions?

Mr. NEEL. Thank you very much, Senator.

The CHAIRMAN. Are there any other questions?

You have been very helpful to us. We appreciate it. You have come up with some suggestions and we may want to talk to you later and get the benefit of your experience, because we are just as interested as you or anyone else in getting this present bill through the Congress.

Mr. NEEL. I will be available at any time, sir.

The CHAIRMAN. We will try to button up all the loopholes and stop this sort of thing from happening. I think when we get into this investigation, you gentlemen will be convinced that it was necessary.

Mr. NEEL. Thank you, sir.

The CHAIRMAN. Tomorrow our witnesses will be Mr. Harry Held, vice president, Bowery Savings Bank, New York, representing the National Association of Mutual Savings Banks; John C. Williamson, secretary-counsel, Realtor's Washington Committee, representing the

onal Association of Real Estate Boards; John A. Reilly, president of the Second National Bank of Washington, D. C., representing American Bankers Association; Milford A. Vieser, vice president, Mutual Benefit Life Insurance Co., Newark, N. J., representing the Insurance Association of America and the American Life Convention.

We have four witnesses tomorrow. I suspect we will have to go back in the afternoon. We are going to recess until 10 o'clock tomorrow morning.

Whereupon, at 4:10 p. m., the committee recessed to reconvene 10 a. m., Thursday, April 22, 1954.)

HOUSING ACT OF 1954

FHA Insurance Provisions

THURSDAY, APRIL 22, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Committee met, pursuant to recess, in room 301, Senate Office
Building, at 10:05 a. m., Senator Homer E. Capehart (chairman)

Present: Senators Capehart, Bricker, Bush, Maybank, Frear, and

CHAIRMAN. The committee will please come to order.
The first witness will be Mr. Harry Held, vice president, Bowery
Bank, New York, representing the National Association of
Savings Banks.

Mr. MAYBANK. May I make a statement first?

CHAIRMAN. Of course.

Mr. MAYBANK. It has come to my attention there are 1,194 units
in section 608 either still under construction or where the insurance
has not been worked out. Four projects have not, as yet, been cleared
and there are two that are not even finished.

—that is, 4 years ago—you are well aware that we tried to
bring this committee before it ever got to the Senate floor in
the middle of that year. What I would like to have done immediately,
Chairman, with your permission, is to ask for a thorough investi-
gation of these units that have not even as yet been paid for, plus the
units that have not been completed.

These units are in Boston, Chicago, Allentown, Pa., and in Alaska.
There are 404 in 1 project in Chicago, 290 in another, 28 in Boston,
and I understand, perhaps, a little delay in Alaska, but I cannot
understand why it hasn't been done since 1950, when the home builders
association people came in and urged us to pass this law to get rental
people. Here it is 4 years later and still it hasn't been done.
I will call the attention of this committee to a statement—and I
will have more to say about this gentleman later on, a Mr. Summer of
Spartanburg, who took the liberty to go down to South Carolina and
after he came to a meeting here, and I'll have plenty to say
on his returns. This is what he said, on page 396 of the hearings
on the Housing Act of 1951-52:

Chairman, I wish to state that for years I have been a strong advocate
of the plan to insure FHA for the construction of section 608—

and wanted priorities—

which could be rented at the lowest rentals, and to increase progressively until the units needed in defense areas could be provided. I have had considerable experience with section 608 construction and have arranged the financing of as many units, if not more than, anyone else in New Jersey.

He advocated 100 percent.

The CHAIRMAN. Is that Mr. Summer?

Senator MAYBANK. S-u-m-m-e-r. He came down here and advocated 100 percent. He said everything was perfectly honest.

The CHAIRMAN. S-u-m-m-e-r?

Senator MAYBANK. Yes.

The CHAIRMAN. He is from New Jersey?

Senator MAYBANK. Yes.

The CHAIRMAN. Senator Maybank, these projects you just brought to the attention of the committee are section 608 projects which were authorized in 1950 and have not as yet been finished?

Senator MAYBANK. Two of them have not as yet been finished. Four have been finished, but they have not worked out the insurance and the financial arrangements. Is that correct?

The CHAIRMAN. In other words, there are six that the still unfinished?

Senator MAYBANK. Six big projects, but there are 1,000 units.

Mr. PARSONS. Six projects have not been completed in full. Two are still under construction, and four have been completed except for final financing arrangements.

The CHAIRMAN. If there is no objection, we will ask the clerk to immediately ask the FHA to give us full and complete information on all unfinished projects.

Senator MAYBANK. I got that from the FHA.

The CHAIRMAN. Well, we better get more information than this. Get the details.

Unfinished mortgages on section 608, and unfinished projects. Let's have that for the record tomorrow without fail.

(The information referred to follows:)

FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C., April 22, 1954.

Re Last projects completed under the provisions of section 608 of title VI of the National Housing Act.

Mr. IRA DIXON,

*Clerk, Senate Banking and Currency Committee,
Room 303 Senate Office Building, Washington, D. C.*

DEAR MR. DIXON: In response to your telephone request this morning, the following is a report of the last two projects completed or to be completed under section 608 of the National Housing Act:

1. Project No. 071-40113: Parkway Gardens Trust No. 1, Chicago, Ill.; 290 units; mortgage, \$2,530,900.

This is a colored cooperative project which was completed on April 1, 1954, and is 100-percent occupied.

2. Project No. 071-42007: Parkway Gardens Trust No. 2, Chicago, Ill.; 404 units; mortgage, \$3,647,000.

This is a companion project to the one above and is about 85 percent completed and approximately 75 percent occupied. Completion is now expected about September 1, 1954.

These two projects are complicated circu-

ling completed, owing to extremely complicated complications.

3. Project No. 071-42008: Parkway Gardens Trust No. 3, Boston, Mass.; 28 units; mortgage, \$215,000.

Inc., Boston, Mass.; 28 units;

This project was just recently started. It was held up for a long time by litigation concerning zoning ordinances which was carried to the Supreme Court of Massachusetts.

4. Project No. 634-42041: Jordan Park Apartments, Inc., Allentown, Pa.; 190 units; mortgage, \$1,492,500, decreased to \$1,400,000.

This is a State subsidized project in which the State granted the owner 383,828 which, added to our mortgage of \$1,400,000, makes a total investment of \$1,783,828. Our mortgage was originally for \$1,492,500, but was decreased to \$1,400,000. This is 100 percent completed and occupied, but it has not been finally endorsed for insurance, owing to negotiations between the mortgagor corporation and the State housing authority which controls this project as to an increase in rents. The owner also desires an increase in the mortgage due to unexpected costs of excavation which has not been granted by our insuring office.

5. Project No. 130-42014: 1200 L Street, Anchorage, Alaska; 139 units; mortgage, \$1,757,300.

This project was completed January 23, 1953, and is 100 percent occupied.

6. Project No. 130-42015: Coffey House, Anchorage, Alaska; 134 units; mortgage, \$1,741,300.

This project was completed January 23, 1953, and is 100 percent occupied.

These two projects have not been finally endorsed for insurance, owing to litigation between the stockholders and the mortgagor corporation which has prevented final endorsement. All of the mortgage money has not been advanced.

Very truly yours,

NORMAN P. MASON,
Acting Commissioner.

The CHAIRMAN. Mr. Held, you have a prepared statement, I believe?

STATEMENT OF HARRY HELD, VICE PRESIDENT, BOWERY SAVINGS BANK, NEW YORK, REPRESENTING NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

Mr. HELD. I have a prepared statement. However, we haven't had time to reproduce it, and I would like to read from it, sir.

The CHAIRMAN. Proceed.

Mr. HELD. My name is Harry Held, and I am vice president of the Bowery Savings Bank, New York City.

The CHAIRMAN. You say you do not have an extra copy?

Mr. HELD. No, sir; I do not.

The CHAIRMAN. Go ahead.

Mr. HELD. I am appearing here as a representative and on behalf of the National Association of Mutual Savings Banks at the request of our chairman to give testimony regarding amendments as to housing legislation which will prevent the recurrence of present conditions.

As the alleged conditions concern the FHA title I modernization program and the rental housing program, particularly under the expired section 608, I shall confine my remarks and suggestions to these two phases of the FHA operations.

With reference to the title I program, I made a personal telephone survey of a number of institutions dealing in home modernization loans and found that in connection with the dealer type of loan, they deal exclusively with reputable dealers whom they have had experience with over a period of years. It was the general opinion that the amendments to part 1 or title I regulations of FHA, as transmitted to all qualified title I lending institutions under date of October 28, 1953, T-1-101, substantially tightened previous regulations.

Mr. ~~HELD~~. The title I?

Senator MAYBANK. Yes.

Mr. ~~HELD~~. No; all I am suggesting is that the homeowner be supplied with a contract form.

Senator MAYBANK. A better contract form?

Mr. ~~HELD~~. That is right.

Senator MAYBANK. What do you think about the form we have now?

Mr. ~~HELD~~. Well, the form of note and affidavit, I think, are satisfactory as revised back last October.

Senator MAYBANK. You think, then, you ought to have a better contract?

Mr. ~~HELD~~. I think probably in a great many of these loans the small fellow is the one who writes on a piece of paper that he is going to do something for a certain amount of money. That constitutes a contract. Then you get complaints because the owner thinks he should have gotten more than he did, and the contractor says, "Well, I gave you all I promised you."

Senator MAYBANK. Well, in a responsible bank and a restricted bank such as yours is, you wouldn't be aware of some of the things that have happened. I ask this question: Don't you think we might specify what these loans will be based on?

Mr. ~~HELD~~. I think that might be a good idea.

Senator MAYBANK. Well, you know of some of the loans made in California?

Mr. ~~HELD~~. Yes, sir.

Senator MAYBANK. Suppose we specified the type of loan. Could we do that in legislation, in your judgment?

Mr. ~~HELD~~. I would think that would be sensible, to limit it to, you might say, home modernization, rather than auxiliary types of modernization.

Senator MAYBANK. The auxiliary types are the kind that came in, fire alarms, burglar alarms, barbecue pits, and things like that.

The CHAIRMAN. Do you think title I is necessary?

Mr. ~~HELD~~. From my check with a great many institutions, a great many of them originally started in the title I field and are now making their own direct loans on home modernization. Their experience has been so good under title I that they felt they didn't need the 10 percent cushion and they could make them on a direct basis.

The CHAIRMAN. And they save the insurance cost.

Mr. ~~HELD~~. And they save the insurance; yes, sir. In other words, they could set up a reserve.

The CHAIRMAN. There is no question but what title I started back in 1934 as a depression measure to help make jobs.

Mr. ~~HELD~~. Yes, stimulate building.

The CHAIRMAN. And it has been in effect ever since.

Mr. ~~HELD~~. Yes.

The CHAIRMAN. The strange thing was, it was in effect during the war.

Mr. ~~HELD~~. Yes.

The CHAIRMAN. It was in effect even when we had allocation of materials and when we had regulation X and regulation W, and price control, it went merrily on. When we were trying to control inflation by price, wage, and rent controls, and fought title I, which was put

in originally as a depression measure, it was left in the bill. It is in the present bill that is before us at the moment, at the suggestion of the Presidential Commission and the Administration itself. I introduced the bill, calling for an increase from \$2,500 to \$3,000 and an increase from 30 months to 36 months in terms. Do you think it is needed at all at the moment?

Mr. HELD. I think title I, the home-modernization program, has been a great boon to this country and a great boon to homeowners in providing things like completing two extra rooms upstairs and putting on garages, and so forth.

The CHAIRMAN. You think it might well be limited to what we normally consider home repair, such as a new roof, painting, floors, fixing the windows, adding an additional room—just limit it to what we normally call repairs?

Mr. HELD. I would be inclined to favor that.

The CHAIRMAN. You would be inclined maybe to recommend that!

Mr. HELD. To favor that.

Senator BUSH. I believe you indicated that the banks' experience with this has been so satisfactory that a lot of them were proceeding on their own without reference to the guaranty. Why do you think it is necessary to continue title I?

Mr. HELD. Well, it may not be completely necessary. I think, as I point out, a great many banks are gradually taking these over because of the previous excellent experience in connection with that type of financing.

Senator BUSH. Wouldn't that increased takeover be accelerated by dropping title I out of the bill?

Mr. HELD. It probably would; yes.

Senator BUSH. Would your institution favor that move?

Mr. HELD. Well, we don't have any title I loans ourselves, being a New York State bank, but most of the banks that I have checked with are suburban banks which go in for a good deal of title I paper. As I say, a great many of them have indicated that a good part of their title I, FHA business is now converted over to direct lending on home modernization. I still think that there is probably an area in which title I home modernization under FHA should be continued.

The CHAIRMAN. Don't you think, Mr. Held, that possibly FHA got into trouble with title I when they went out promoting it and approved some 500 to 600 items that were subject to insurance, rather than staying with the original purpose of helping a man to repair his home, in the true sense that we think of repairs, rather than swimming pools and burglar alarms and landscaping and—well, we have asked for a complete list, as you know, of the between 500 and 600 items that Mr. Frenz testified they were insuring. (See p. 1597.)

Have we received that yet, Mr. Clerk?

Mr. DIXON. No; we have not.

The CHAIRMAN. I wonder why it takes them so long to get this information to us. Is anyone here this morning from FHA—that is, who is still working over there?

Senator MAYBANK. Mr. Greene—

ALL N. You are not with them any more, are you?

ALL N. No.

ALL N. Is anyone here with FHA?

It isn't quite clear to me. We asked for that 2 or 3 days ago. Why couldn't they just send it up within 10 minutes? I would think there would be a list there someplace where a man could look at it and pull it out and say, "Here is the list."

Call them on the phone, will you please, because it is important that we have this. I would like to have it this afternoon. It is important that we have this, in discussing the matter with these gentlemen today, sir.

Mr. McMURRAY. Here is Mr. Welsh, from HHFA.

Senator LEHMAN. May I ask you, Mr. Chairman, if we received the memorandum which was promised to us by Mr. Cole, setting forth the exact standards that are used in making estimates, valuations?

The CHAIRMAN. Section 608 or title I?

Senator LEHMAN. Section 608.

The CHAIRMAN. Mr. Clerk, have we received that? Did you hear what Senator Lehman said? Will you say it again, please?

Senator LEHMAN. Several days ago, I asked Mr. Cole, in the presence of some of his assistants, to give us a memorandum of the exact basis that is used in making estimates in valuations. (See p. 1408.)

The CHAIRMAN. Under section 608.

Senator LEHMAN. Under section 608.

The CHAIRMAN. You have not received that, either?

Mr. DIXON. No, sir.

The CHAIRMAN. Check them on that.

Another thing we asked for, which is very, very important, and they promised to give it to us, was a list of dealers that they have blacklisted or raised a caution about.

They promised to give us the names of the dealers in the United States that have been blacklisted or canceled out, and said, "No longer can you insure under title I without fulfilling special conditions."

Now, they promised to give us that 2 or 3 days ago. Do we have that yet? I understand we have part of it through November 1953. I think it is important that we have that. It is public information, and we ought to have it for our record, here. (See p. 1905:)

Those three things, Mr. Clerk, we would like to have this morning.

Mr. DIXON. I would like to get the first one. I thought it was the alers.

Senator LEHMAN. May I ask a question?

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. Mr. Held, under the laws of the State of New York—I used to know something about them, but I haven't kept up with them very closely in 12 years—under the laws of the State of New York, are the mutual savings banks allowed to make character loans?

Mr. HELD. No, sir, no direct personal loans.

Senator LEHMAN. Are they allowed to make direct rehabilitation loans?

Mr. HELD. On properties which are being rehabilitated?

Senator LEHMAN. Yes.

Mr. HELD. If there is a mortgage involved.

Senator LEHMAN. Do you mean a mortgage that runs to the bank?

Mr. HELD. That is right. Not on a note.

Senator LEHMAN. In other words, if a mutual savings bank made a \$1,000 rehabilitation loan, it would have to take a mortgage for that amount?

Mr. HELD. That is correct; yes.

Senator LEHMAN. Can you tell us what the ratio is today, approximately, between direct rehabilitation loans and the title I loans?

Mr. HELD. I do not have that figure, Senator Lehman.

Senator LEHMAN. Is it substantial?

Mr. HELD. I wouldn't know about the ratio.

Senator LEHMAN. You mentioned that in your opinion that is quite a prevalent practice.

Mr. HELD. I said in the institutions with whom I have checked that a great many of them who were originally in the title I program are now making some of those loans direct. The trust companies; some of the savings banks in Connecticut—savings banks in Connecticut can make this type loan, and they are doing a large direct business in home modernization loans.

Senator LEHMAN. Have you any figures on the loss experience or direct rehabilitation loans?

Mr. HELD. No, sir. I would guess that it was less than 1 percent.

Senator LEHMAN. What was the loss on the title I loans?

Mr. HELD. I understand that was also less than 1 percent. I have some figures that I just gave on the call report. Against a nationwide delinquency ratio based upon an amount of 1.30 percent delinquent 90 days or more, the delinquency ratio of national banks was only 1.22 percent, and State-chartered banks, 1.21 percent.

Senator LEHMAN. When the bank makes a direct rehabilitation loan, what inspection do they make with regard to the work and the progress of the work?

Mr. HELD. They probably make the same type of inspection that they make in connection with a title I, FHA loan. Actually, these are loans based upon personal notes. Actually, it is a credit factor that is involved, as well as rehabilitation.

Senator LEHMAN. You say they make about the same inspection as they do on the title I loans?

Mr. HELD. That is right.

Senator LEHMAN. Do they make any substantial inspection on their title I loans?

Mr. HELD. I think the general practice has been, in the institutions I have talked to, that they have spot-checked these things and in dealing with reputable dealers, when they get their completion certificate, they are generally satisfied, but being in a local area, they can go out and spot check 4 or 5 or 6 in a day to see that the job has been done.

Senator LEHMAN. Don't they depend very largely on the certificate that they get from the homeowner, himself, as to work that has been completed?

Mr. HELD. I think that is so; yes.

My impression is that there is very little, if any under title I. Now, on these rehabilitation with regard to the character would it be limited to the house ranges, or would there be a wide range of loans?

Mr. HELD. As my experience goes in the New York-Connecticut northern area, the modernization loan has been pretty well limited to actual home repairs. I know of no cases—no cases have come to my knowledge whereby any auxiliary type of improvements have been made.

Senator LEHMAN. Concretely, would they make a modernization loan for landscaping?

Mr. HELD. That may be possible, but I wouldn't know.

Senator LEHMAN. It has been testified here that some of these owners were persuaded to make small fire-insurance allowances. Would the bank recognize that?

Mr. HELD. I doubt it very much.

Senator LEHMAN. If the banks can limit the purposes to which these loans can be used, wouldn't it be possible under title I to limit the purposes, instead of spreading them all over the lot, as we do now?

Mr. HELD. Yes. I believe I have already said that I would favor the idea of cutting down the list to keep it to true home improvement, rather than auxiliary types of improvements such as may be in the program at the present time.

Senator LEHMAN. Would that, in your opinion, reduce the opportunity of the salesman to persuade the homeowner to buy or contract for things that really were not needed or useful in the house?

Mr. HELD. It may. It would probably minimize it to a great degree.

Senator LEHMAN. Have the mutual savings banks—your bank, for instance—have they got any list of the improvements which they would recognize as justified under a direct modernization loan?

Mr. HELD. As I mentioned before, Senator Lehman, we do not make title I loans. Being a New York City bank, we get very little call for them. Most of those loans are made by the commercial banks in the city, and mostly in the suburban banks, where the local contractor, or the owner, goes to a local bank and arranges his loan.

Senator LEHMAN. Are you representing all the—

Mr. HELD. The national association.

Senator LEHMAN. You were talking about the growth of these rehabilitation or modernization loans. I was under the impression that you were referring to loans made by the New York City banks.

Mr. HELD. I was talking in a general sense.

Senator MAYBANK. Mr. Held, have you heard of some banking corporations formed for the particular purpose of making title I loans?

Mr. HELD. No, sir; I have not.

Senator MAYBANK. Have you ever heard of banks that have branches in various sections to make title I loans?

Mr. HELD. No, sir.

It would also seem that the most effective way to combat the racketeer in home-improvement loans would be to provide FHA with sufficient investigatory personnel to run down all complaints and to ascertain how and from whom loans to unscrupulous dealers and their representatives are made. Effective action under existing law and regulations can be taken in these cases to prevent recurrence of such activities.

Rental housing: With reference to the rental and cooperative housing provisions under sections 207 and 213 of S. 2939, I testified before

this committee on March 25 and stated in connection with the proposed changes in section 213, as follows: Our association believes that the provision which would base mortgage limits on appraised values instead of replacement costs as provided under section 213, is decidedly a forward step toward providing relatively sound cooperative housing.

We also stated we are, however, not at all certain that section 213 should provide for higher basic mortgage limits than those provided under section 207. While in theory it may seem advisable to make provision for higher limits on cooperative projects and rental projects such higher limits might in effect lead to the promotion of unsound cooperatives under the sponsorship of speculative developments.

Inasmuch as section 207 continued to provide for estimated value based upon economic soundness, we did not address ourselves to any further recommendation for additional amendments.

Senator BUSH. Section 207 is what type?

Mr. HELD. That is the rental housing under the economic-value standpoint.

However, in the light of the committee's invitation to give testimony regarding amendments to housing legislation which will prevent recurrence of conditions recently alleged in connection with FHA, we would like to make the following suggestions: It is our opinion that the provision for insuring loans on leaseholds in both sections 207 and 213, should be eliminated. It is our belief that this provision was originally put into the law to enable rental projects to be built in those States, particularly Maryland, where the use of the leasehold type of land tenure was traditional. Where the leasehold type of transaction was resorted to in other areas in connection with FHA financing of rental projects, the motivating influence in all probability was one of profit and/or tax consideration.

The leasehold type of mortgage in effect could increase the FHA liability in the event of a default on the mortgage, if the Administration bought the fee at the prescribed price in lieu of continuing to pay ground rent to the lessor, in the event of default.

In view of these circumstances it would seem to us that the elimination of provisions for insurance of FHA mortgages on lease land would produce sounder rental and cooperative housing loans under sections 207 and 213.

We also would favor an amendment to sections 207 and 213 similar to the one this committee added to title VIII and title IX of the FHA act to provide a requirement that the mortgagor certify as to actual costs upon completion of physical improvement. Also if the mortgage amount exceeds the permissive percent of the certified actual cost the mortgage amount should be reduced by such permissive percentage. While we would favor such an amendment we would feel remiss if we did not point out that such provision would tend to favor the least efficient builder as against the most efficient one. Also that if the general construction costs—

The CHAIRMAN. Will you yield there a moment?

Mr. HELD. Yes.

The CHAIRMAN. Why do you make that statement? I am interested in it.

Mr. HELD. The least efficient builder, obviously, would have greater costs than a more efficient builder, on a similar type of project.

IRMAN. Maybe I don't understand this business and maybe p me: Here is a case where the builder continues to be the he takes out a mortgage and regardless of the size of the ie must pay it.

D. That is right.

IRMAN. So why isn't he better off, then, in having a small and building the property at the least possible amount? u say that it will penalize the efficient builder?

D. It would penalize the efficient builder because on the er of units—assuming that two builders, an inefficient and builder—

IRMAN. One would get higher rent than the other.

D. One would get higher rental than the other, that is one and the other situation would be that while this fellow's come down, he would have to pay back—

IRMAN. The only way he would really get hurt is because he mortgage, of course, the less the rents.

D. Yes.

IRMAN. The only way the efficient builder would get hurt, l be by charging lower rents?

D. That is right.

IRMAN. Therefore, the inefficient, and the fellow who can h appraisals—the higher he can get the mortgage, the more me he is going to have; is that correct?

D. It might cause your efficient builder to become inefficient. er might lay from 300 to 500 bricks a day. In some cases, get projects finished in a short period of time, builders pay overtime, et cetera, to get the buildings up as fast as against another type of building. There are many factors.

IRMAN. It seems to me, then, perhaps what is wrong with id what is wrong with what FHA has been doing is that een setting these rents on the basis of the mortgage, rather aybe some other standards.

D. I believe that that is so.

IRMAN. I cannot conceive of a practice that permits people re rent because the builder was inefficient and because the was wrong in his appraisals. It seems to me, then, that it in this procedure and in the law and in the policies FHA is setting the rents based upon the amount of the mortgage.

D. Well, in connection with any replacement cost formula, use an average. You can take all of the large construction s from, oh, 15 or 20 different organizations, and you will he cubic-foot cost for the same building will vary in the and also in different areas.

IRMAN. You see, what we have been talking about or pro- you say, as we did in military housing, that you can go appraise them and get a mortgage for that amount, but roject is completed, then you adjust your mortgage to the

D. Yes.

AIRMAN. You feel that that will penalize the efficient

D. We were just pointing that out. We would favor it, but nting that out.

The CHAIRMAN. I can see where it does penalize the efficient builder because he will get less rent. That is why I say, the principle is just 1,000-percent wrong in arriving at the rates on that basis.

Mr. HELD. For instance, on a two-and-a-half home unit, you would have an \$8,100 evaluation and next door you would have a \$7,100 valuation because one fellow was more efficient than the other. There is a certain inequity in this.

The CHAIRMAN. The tendency has been on all these section 608's, then, to get the appraisal as high as possible and get the mortgage as high as possible. "Even though I do own the property and will have to pay back the mortgage, I can get the money and get higher rents." Is that the practice?

Mr. HELD. The rents were based upon the amount of the mortgage, plus the operating expenses and the per room rent was working backwards from the expenses necessary to be paid out of the rental income.

The CHAIRMAN. In other words, if I could talk an appraiser into giving me an appraisal and letting me get a million-dollar mortgage knowing that the property would only cost me \$600,000, then I could charge 40 percent higher rentals. A little less than 40, but I mean in round figures.

Other things enter into it, of course.

Mr. HELD. There are a great many factors.

The CHAIRMAN. Using the formula I just used, I could get higher rents. I don't know whether it is 40 percent or not but I could get higher rents?

Mr. HELD. That is right.

Senator BUSH. Probably the reason he would be able to get the higher rents is due to the scarcity value of the accommodations of that kind, at such periods as these rentals came on the market; is that not so?

Mr. HELD. The surprising thing about the rentals in section 608 is—I have some figures here which I got which indicate that rentals in section 608 projects—the survey of vacancy percent in completed FHA section 608 rental prospects.

March 31, 1953, 2.8 percent.

March 31, 1952, 3.9 percent.

March 31, 1951, 5.8 percent.

March 31, 1950, 7.2 percent.

Senator BUSH. What is that?

Mr. HELD. Percentage of vacancies in completed section 608 projects.

Senator BUSH. Those are very low figures.

Mr. HELD. Yes, sir.

Senator BUSH. My point is this, pursuing the Senator's question a little further. If these properties had been marked up as so many of them are, according to what we have here—let us say property is marked up 20 percent, that is \$1 million actually, but they are getting a \$1.2 million. That marks the whole thing up 20 percent so that the whole thing is to be up 20 percent in order to.

Mr. HELD.

Senator BUSH. So, as we catch up on housing here, gradually, those properties which have that padded factor in them are going to be in rather poor competitive position, are they not?

Mr. HELD. They might be if a great many new units were built to put them in competition. For instance, if rent control were to go off in certain areas and rents in older buildings were to shoot up beyond these, then these would be really bought.

Senator BUSH. As prices are stabilized and the demand for housing increases, would the population—chances are the builders have gone ahead and built new buildings, and if they are built and priced on a fair basis and not on a padded basis, then they are going to come into competition with these units, at a 20-percent differential for new quarters, are they not?

Mr. HELD. That is correct.

Senator BUSH. Do you have an opinion as to whether that possibility doesn't threaten to bring an awful lot of trouble to the Government, which is guaranteeing these mortgages?

Mr. HELD. Well, I might say this: Of course, amortization on these loans are working in favor—

Senator BUSH. That is right.

Mr. HELD. Also the fact that there are replacement reserves that are set up and there is the only type of mortgage upon which replacement reserves could be set up to take care of future replacements on a cash basis. In the ordinary amount they do not have replacement reserves. They may carry a depreciation factor on their statement, but when they come to a point where they have to replace refrigerators, they usually do it based upon a chattel-mortgage type of arrangement whereby they replace them and pay them out of rents over the next years. But in each one of these, there is a replacement reserve, which I think is another safety factor.

Senator BUSH. That would be a safety factor so long as the rentals are competitive and so long as they could keep that fine occupancy record up.

Mr. HELD. That is right.

Senator BUSH. But, if competition comes in on the basis of true cost and fair profit, it would put these properties at very considerable disadvantage, it would seem to me.

Mr. HELD. That is true, but based upon the record of rental housing construction, in our area, there has been no housing that has been comparable to the FHA rental projects that were constructed as far as rents are concerned. The rents were \$35 and \$40 a room, as against \$25 to \$30 a room in the other.

Senator BUSH. As time goes on and we get caught up with the building situation, builders are going to come in and see these high costs and be tempted to build competitive buildings on a private basis and apply severe competition.

Mr. HELD. You would have to have a substantial decrease in building costs in order to build at 1947 or 1948 or 1949 levels.

You would have to have a very substantial decrease in building costs, and, of course, land is increasing in value all the time, particularly in these areas.

Senator BUSH. I am thinking particularly of that padded factor that is in so many of these section 608 loans. That is what I am talk-

ing about. Not the costs. I don't expect to get back to 1946 or 1947 costs. And neither do you; do you?

Mr. HELD. No. I know of no formula whereby, based on estimated current costs as of today, you could say that that would be the ultimate cost 18 or 21 months from now. The way the thing was set up all in advance of the actual construction of the building, and many things can happen during that period.

Senator BUSH. I am simply trying to point out or feel out whether it isn't true that because of this padded factor, those buildings which have been put on the market, are going to find themselves in just that much of an unenviable position in competition, eventually, as the whole market catches up with this situation. That that might put the FHA in a very embarrassing position, as guarantor of these padded loans.

Do you not see that that is a real possibility?

Mr. HELD. It may be a possibility, although as I have pointed out you do have amortization working in favor of this situation and you do have at the present time a loss experience of 3 percent, on a very liberal program.

Whether that loss experience will increase over a period of time is problematical. Whether the fund will be sufficient to take care of it—actually there is a salvageable value in all of these properties, upon a resale, if FHA takes them over, and that is what I believe the fund was set up for and they may not have to go to the Treasury for any money. I don't know. I can't predict what is going to happen but I do say that time is running in the favor of these section 608's, by virtue of the amortization and the buildup of replacement reserves which in the event of default, the sponsor, or owner losses and it has to be turned over—

Senator BUSH. It runs in their favor, but that will not let them get to a competitive basis in the rentals.

Mr. HELD. That is right, but it does have an effect on the ultimate loss.

Senator BUSH. Thank you very much.

Senator LEHMAN. Mr. Held, I would like to ask you a question: Disregarding at the moment the possibility of criminal violation in connection with section 608, I think it is perfectly clear—I say this without having been on the committee at that time—that when this law was drafted, there was no expectation that the Government was going to permit the section 608 builders to be paid a substantial amount larger than their investment so that they could mortgage out without any difficulty and immediately make a profit. I think there is no question about that.

Mr. HELD. That is correct.

Senator LEHMAN. Now, we find they have been able, because of the careless, or inept, or possibly corrupt valuation that has been made, to obtain a sum of money that is vastly, in some cases very greatly in excess of the actual cost of the buildings.

You were saying that to base the mortgage on the actual cost of the building would penalize the efficient builder. To some extent I think that may be true, but there are always variations, there are always unknown factors that affect the cost of a project. You can't get away from that. And if you based your mortgage on the actual cost, then there would be no inflated valuations which would inevitably in-

use the rent. So that you can either do it, it seems to me, on a certification, or you can—I would ask you whether in your opinion it would be possible to place a provision in the law compelling people to have received sums larger than the actual cost, plus a profit, to that back in the reduction of the mortgage upon which, after all, rentals are based.

Mr. HELD. I said we would favor that.

Senator LEHMAN. You would favor it.

Mr. HELD. Yes; I said we would favor that.

Senator LEHMAN. Would that limit the operations of any of the institutions?

Mr. HELD. It probably would; yes, sir.

Senator LEHMAN. To what extent?

Mr. HELD. It probably would to a certain extent. To what extent, I cannot say.

The CHAIRMAN. Mr. Held, while we are talking about that, has your bank financed a lot of section 608 projects?

Mr. HELD. Yes.

The CHAIRMAN. All in and around New York City?

Mr. HELD. All over the country.

The CHAIRMAN. Would you remember any specific ones? For example, if I named one to you, are you close enough to it to remember?

Mr. HELD. I believe I might.

The CHAIRMAN. Did you finance the Farragut Gardens, Van Devereer Estates, Inc.?

Mr. HELD. That doesn't ring a bell. Some of these go by corporate names and then they change the name of the project, or something. I don't know offhand.

The CHAIRMAN. Are you familiar with the fact or have you had experience with it, the fact that these gentlemen under section 607 were mortgaging out and declaring dividends and making what was considered to be a profit on their mortgages?

Mr. HELD. No, sir; we were not aware of the fact. As a matter of fact, I testified before this committee that there was a possibility that that could happen under the existing law.

The CHAIRMAN. You say your bank has participated in a lot of section 608 projects?

Mr. HELD. Yes.

The CHAIRMAN. Did you require that the borrower from you, the person from whom you bought the mortgage, did you require that he pay you an actual cost of the project?

Mr. HELD. No, sir; we did not. The entire responsibility for appraisal—we worked on a commitment, entirely from the FHA.

The CHAIRMAN. In other words, you accepted 100 percent the appraiser's appraised figures?

Mr. HELD. That is correct.

The CHAIRMAN. And did not send anyone out to check, yourselves?

Mr. HELD. Yes, sir. We checked the site. We checked the rents to see that the rents were at the level of rents in the general area and not too high for that particular area. We also checked the layout to see that that was satisfactory as far as we were concerned. We checked the rents and made a computation as to how far down those rents could go before a default might occur on the mortgage.

In other words, we wanted to find out whether the mortgage, as it was presented to us, would live.

The CHAIRMAN. You don't think, then, if I named some of these section 608's around New York City, you would be able to remember any of the names, whether you did or did not finance them?

Mr. HELD. I doubt very much that I would, Senator.

The CHAIRMAN. For example, these projects on which they made a lot of profit at the end of their construction period, or when they are finished—the general counsel for the Mortgage Bankers Association yesterday testified that in his opinion, this was not illegal.

Is that your opinion, or what is your opinion?

Mr. HELD. Well, Mr. Chairman, not being a lawyer I don't think I could pass upon the legality of the situation. I do know that they had to set up average values, 18 to 21 months in advance and a great many things can happen in that period to either increase or decrease the cost of a project.

The CHAIRMAN. Here is one where the total capital invested is \$2,000. They have five stockholders. The mortgage ran \$4,850,000. Distribution to stockholders at the end of it was \$500,000. In other words, they had five stockholders, they invested \$2,000. The cost of the building was \$4,226,000, approximately. The insured loan was \$4,850,000, and they declared distribution to stockholders of \$500,000. The total capital invested by them was \$2,000 and this particular company had 5 such projects, in which the figures are substantially the same as I just mentioned.

When you bought one of these mortgages, and you say you dealt with them extensively, these section 608s, did you pay any attention whatsoever to the equity behind the mortgage—that is the corporation that was giving you the mortgage?

Mr. HELD. No, sir. We were standing between the sponsor and the FHA.

The CHAIRMAN. Mr. Held, I don't want to be critical but you just depended upon the FHA's guaranty didn't you?

Mr. HELD. We depended upon the FHA guaranty, plus our own check of the factors which I mentioned before.

The CHAIRMAN. Let me ask you this question, without being critical. Some people thought I was a little too critical yesterday. Let me ask you this question: In private business, where the Government wasn't involved, where you were just buying the mortgage of Senator Bush or Senator Lehman or anybody else, would you take a \$4,850,000 mortgage for 25 or 30 years, with a corporation that had only \$2,000 of capital?

Mr. HELD. It would depend upon what the earnings of the property were.

The CHAIRMAN. In other words, would you take the mortgage based entirely upon the property itself without any other security behind it?

Senator BUSH. If I might suggest, it might also depend upon who was guaranteeing it. Maybe some very important fellow was guaranteeing the thing and the bank has got to look at the value of the security that they are buying.

The CHAIRMAN. In the case I am talking about, that wasn't true. Senator BUSH. The Government was guaranteeing it.

The CHAIRMAN. That is my point.

Senator MAYBANK. He is a very important fellow.

The CHAIRMAN. Would you have taken it if it had been a private business, without the Government's guaranty?

Mr. HELD. Of course, we couldn't take it under our State law. We can't make loans in excess of 66 $\frac{2}{3}$ percent.

Senator BUSH. If Mr. Rockefeller made the guaranty, I think he would be willing to take it.

Mr. HELD. If we could under the State law, we might.

Senator BUSH. They have to look at the value of the security. Not just the invested capital in it. If there is a guarantor of substantial value it is perfectly proper for a bank to make a loan on a guaranty.

The CHAIRMAN. Here is a series of New York projects—I will not ask if you financed them or not—here is the insurance mortgage, \$3 million, \$4 million, \$2 million, \$1,680,000. Here is one of \$2 million in which the invested capital by the corporation was \$1,000. Here is one where the mortgage was \$3 million, and invested capital \$1,000. Here is one of invested capital \$1,000, where the mortgage was \$466,000. Here is another one with an invested capitalization of \$1,000, and a mortgage of \$3,210,000. They took out \$325,000, \$112,000, \$550,000, \$117,000, \$425,000, and \$87,000.

That is the pattern throughout this whole business.

What we are trying to do here is to find out how we can tighten up this proposed bill to eliminate that sort of business. I just don't think it is sound business for a man to invest \$1,000 and take out \$500,000, and get a \$5 million mortgage.

Mr. HELD. Well, I don't know anything about the figures. I do know that at the time of the closing of any of these FHA loans, the sponsor had to put up sufficient cash between the amount of the mortgage and the FHA estimated cost, and that money was used first in excess with construction, before any mortgage loan.

Now, of course, if FHA insured advances throughout these mortgages, and you got to a certain point and the estimate wasn't sufficient to take care of the project, they might have to complete it.

The CHAIRMAN. Do you see any other way of handling this sort of thing, where the Government guarantees 90, 95 percent, or 80, or 85 percent, and makes a firm commitment before a project is begun, to eliminate this sort of thing other than having a system where when the project is finally finished, the costs are totaled up and then you adjust?

Mr. HELD. That is probably the only way you can do it, is through an audit of final costs, because to project either on an economic value, or on a replacement value is bound to have repercussions one way or the other.

The CHAIRMAN. You see the reason we are so concerned about this matter is that we have in that bill passed by the House, 40-year mortgages, with a 100-percent guaranty. That is under section 221. That is the new section, and if we have abuses on 90 percent, what are we going to have on 100 percent.

Mr. HELD. I think under the audit, I would imagine you would have to set up certain standards. In other words, if a building concern which does all its own building comes in, are they entitled to an architect's fee and so forth.

The CHAIRMAN. There is no question in my mind but what they are entitled to all their expenses. If they have to hire architects and engineers, that is an expense. That is a business expense.

Senator BUSH. Isn't it true that so long as the Government is virtually and in practice and experience the full guarantor of these advances, that that suggests to the bank that their precautions are not invited by that?

Mr. HELD. That is absolutely correct.

Senator BUSH. If that is true, would it not also be true that a larger sharing of the risk by the lenders, whoever they might be, would increase their vigilance in connection with making sound loans?

Mr. HELD. Do you mean that if instead of a 100-percent guaranty, the lender had only an 80-percent guaranty?

Senator BUSH. Yes; something of that order. Just as in the ordinary mortgage lending business over the years, not many years ago it was customary to lend 60, 65, or 70 percent, and the lender was pretty careful about making sure that that was a conservative, reasonable, sound loan. Is that not so?

Mr. HELD. If a loan is on an economic value and it is an 80 percent loan, actually the Government is only guaranteeing 80 percent of the value. With this veterans' emergency housing in the rental field, the requirement goes to 90 percent mortgages.

Senator BUSH. We are looking toward rewriting this bill and we are trying to find some way of increasing the vigilance on the part of the lender so as to decrease the risk of the insurer, so to speak.

Mr. HELD. Well, I think this. If the loan is to be insured, FHA issuing the charter to the owning corporation and holding the preferred stock, is certainly in a much better position to police these things than a lender would be.

Senator MAYBANK. Who did you say was in a better policing position?

Mr. HELD. The FHA which issues the corporate charter and holds a share of preferred stock in the corporation. I believe it would be in a much better position to enforce a requirement for an audit at the end of a job and conduct such an audit.

Senator LEHMAN. Do you know of any substantial number of cases where the cost of the project exceeded the mortgage?

Mr. HELD. No, sir, I do not have any knowledge about that, whatsoever.

Senator LEHMAN. One of the witnesses testified that in certain cases, the cost was considerably in excess of the mortgage and the owners had to put in their own money.

Mr. HELD. We have had many cases like that. We have had cases where they have put in one hundred and fifty to two hundred thousand dollars—at least laid it on the line at the time of closing. Between the mortgage and the other thing, to guarantee the completion, and that money was used.

THE CHAIRMAN. That is where you were making progress payments?

Mr. HELD. That is where we closed the loan. There are two ways it. In some cases, the loans which we purchased, we purchased the properties were up and had been up for a year, went out and then and again did our usual check of location, rents, and then decided whether we wanted it or didn't want it.

LEHMAN. That \$150,000 to which you refer, did that re-property as equity money?

Mr. HELD. That I cannot say, Senator Lehman. All I know is that at the time of closing, the owner or sponsor had to put up the difference between the amount of the mortgage and the FHA cost, and that that money would be drawn down first before any mortgage money would be disbursed.

Senator LEHMAN. The reason I asked that is that we have a confidential list of projects in which the costs were considerably less than the mortgage and it permitted these people to mortgage out. What I am trying to get at is whether there is any substantial number of cases on the other side where the cost of the project is in excess of the mortgage.

Mr. HELD. That, I wouldn't know.

The CHAIRMAN. We had testimony yesterday that there were many such cases. Which, of course, makes us wonder just what sort of appraisers we had.

Mr. HELD. In every case before FHA issued a commitment they had to have a financial statement of the corporation and they had to pay us on the financial stability of the corporation.

The CHAIRMAN. Under the law, FHA sets the rents and they cannot change them without their approval. They are required to give FHA financial statements every year, and they cannot sell the property without their approval. In most instances FHA owns \$100 worth of preferred stock in the corporation.

Mr. HELD. But, I am talking about the sponsors. A regional financial statement of the corporation which they—to whom they issued a charter. They had to have a financial statement on that.

The CHAIRMAN. That is my point. I just named 5 projects here where it was \$2,000.

Senator BUSH. Mr. Chairman?

The CHAIRMAN. Senator Bush.

Senator BUSH. In a general way do you think it is desirable to continue FHA?

Mr. HELD. I think it would be very bad if FHA were discontinued. I think that, No. 1, FHA has provided a certain degree of liquidity and movability of mortgages which is not inherent in any other type of mortgage financing. In other words, savings banks in New York do not invest in FHA and GI loans anywhere in the United States. We do not on a conventional loan basis. We can only go into our adjacent States. Therefore, I think that that factor alone—and in order to channel funds into areas where there is a shortage of mortgage capital, where the banking institutions have not kept pace with the population growth, that that type of security is very desirable.

Senator BUSH. That is very good reasoning, I think.

Senator MAYBANK. Do you think that we should write something in the law, though, to have an audit as to cost of these FHA projects?

Mr. HELD. Yes, sir; we would favor that.

Senator MAYBANK. I can't speak except for myself but I don't believe Congress would enact any law after these scandals, these scandals in title I, unless there was some sort of check when this thing is done to see that they got 90 percent and no more.

Senator BUSH. Are you going to come to the question of FNMA in your testimony?

Mr. HELD. No, sir, I am not.

Senator BUSH. Could I ask you a general question on that subject?

Mr. HELD. Yes.

Senator BUSH. Do you feel it is desirable to continue FNMA?

Mr. HELD. We testified before this committee—I believe we have a copy of our testimony here—with reference to secondary mortgage facilities and we said:

Section 301 is a complete rewriting of the charter statute of the Federal National Mortgage Association.

I will get down to the meat of this.

There is little doubt that the past expansion of Federal National Mortgage Association's operations, particularly since 1947, were influenced primarily by the retention of an inflexible and unrealistic rate on Government insured and guaranteed loans until the middle of 1953. If a flexible interest rate pattern such as proposed in this bill had been available and had been put into effect if such were required, the need for a secondary mortgage market facility would have been materially minimized.

We have never believed in the philosophy of using a secondary market facility to peg an unrealistic interest rate. We believe this bill recognizes the importance of a realistic and competitive interest rate on mortgage investments. If future mortgage interest rates are set on a basis whereby the yields obtainable are truly competitive in the capital market, the need for a secondary market for mortgages would, for all practical purposes, be obviated. Regardless of these factors, our association voices no objection to the supplementary second mortgage market plan as proposed in this bill, based upon the belief that such plan could be of so much benefit in directing mortgage funds to areas of scarcity and in relieving temporary situations of lack of liquidity.

Senator BUSH. You point out there that the suppression of interest rates was the real reason why FNMA picked up \$6 billion worth of mortgages and the Government now owns them.

Mr. HELD. I think it was \$3.5 billion, or something like that, of which about \$2 billion worth are outstanding, of which about \$1.8 billion, as I recollect, is in GI loans.

Senator BUSH. I was under the impression it was a larger figure, but I won't insist on that.

The fact that the rate was held down when the lenders were getting more money all around, made those mortgages, at par, not attractive to the investing community generally, for a long time, is that not so?

Mr. HELD. Yes, sir.

Senator BUSH. So that resulted in the Government having to stand there with a big basket and take in all these mortgages?

Mr. HELD. That is right.

Senator BUSH. And that is why we have such a big portfolio in the Government now.

Mr. HELD. I believe that is so, yes.

Senator MAYBANK. Wasn't it true that the Government raised interest rates on bonds about the same time?

Mr. HELD. Pardon me?

Senator MAYBANK. Wasn't it true that the Government raised interest rates on bonds about the same time and rediscount rates to the Treasury of this was taken up so the Government was

tion I would like to place into the
Arthur J. Frentz, in which he
title I. We will not print this

but I want to make it a part of the record and have the forms kept with the record.

(The forms referred to will be found in the files of the committee.)

The CHAIRMAN. Then we will put in the record, "List of dealers subject to the provisions of regulation VIII, section 2, 1953." (See appendix, p. 1509.)

That is just a technical way of talking about the dealers that have been taken off the list. That is what the project says there. That is the name of it on the outside.

That is just those that have been taken off of the list, meaning the right to finance title I projects as of January 31, 1953. You see, that is over a year old. They are going to bring it up to date and we will have the list of those they have taken off of the rolls since January 31, 1953.

Mr. HELD. I have that supplemental list, February 1, 1953, through November 30, 1953.

The CHAIRMAN. Which is that?

Mr. HELD. That is the supplemental list.

The CHAIRMAN. That is the list that was sent you?

Mr. HELD. Yes.

The CHAIRMAN. We have that, too.

I gather that the FHA mails that list to all the participating banks.

Mr. HELD. Yes, sir.

The CHAIRMAN. That is where you got it?

Mr. HELD. Yes, sir.

The CHAIRMAN. Without objection we will put a later list in. This is the supplemental list of dealers subject to the provisions of regulation 8, section 2. This is through November 30, 1953. November 30—that is still putting us about 5 months behind. That will go into the record. (See appendix, p. 1509.)

Mr. HELD. They come out in sheets.

The CHAIRMAN. From day to day.

Mr. HELD. During the month you may get 1 or 2 or 3.

The CHAIRMAN. In other words, as the FHA here in Washington blacklists a dealer they automatically send that list to all the authorized banks in the United States.

Mr. HELD. That is right, and then they later compile it into that printed list.

The CHAIRMAN. Do you have any idea how many names there are that have been blacklisted?

Mr. HELD. I haven't; no, sir.

The CHAIRMAN. I don't believe there are any further questions.

Are you finished with your statement, Mr. Held?

Mr. HELD. I have one further suggestion in connection with section 13, which would be purely administrative, and that has been made by one of our members, which we believe should merit consideration. This suggestion is that FHA should no longer be receptive to the appointment of the builder-promoter of a section 213 project coming under a different corporate entity and being given the management of the property. The reason given for this suggestion is that the builder-promoter should not be permitted to act in two capacities.

On behalf of the association, I wish to thank the committee for this opportunity to present our views and hope our suggestions will be of some assistance.

Senator MAYBANK. You think the builder-promoter should be written into the law, rather than "administrative action"?

Mr. HELD. Well, it could be administrative action. It could be done that way, because FHA has the right to choose the management or approve or disapprove the management. This suggestion comes from one of our members.

The CHAIRMAN. We appreciate very much your testimony and we wish you would do this, your association—that is the National Association of Savings Banks: We wish you would further study this proposed bill in the light of the supposed irregularities that have been turning up here in the past couple of weeks, and give us the benefit of how you think we can write this new proposal to eliminate these irregularities. We know we can't legislate, of course, honesty and integrity, but we can make certain that there is no known loophole, and that is what we want to do. Because the FHA has no doubt done a tremendous amount of good and has developed and produced, indirectly, several million homes, we don't want to do anything, and we don't want to see anybody else do anything, to injure it.

On the other hand, we are certainly not knowingly going to be a party to any graft, corruption, collusion, and mismanagement, and having inherent weaknesses in the law that permit irregularities, and make it easy for people to violate the law. Make it easy for people to get around it. That is not the intention of it.

Mr. HELD. We will be very happy to give it further study.

The CHAIRMAN. We are very sincere and honest in what we are trying to do here, and this is a big operation, as you know; it is widespread. I have often said that I think the housing bill is the toughest piece of legislation in the Congress to handle, and I think it is probably the hardest administrative problem in the Government. It is the complexity of this thing. FHA is tremendous. It runs into billions and billions of dollars, and we want to accept our responsibility here, now, by writing a good law, so that no one can say, "Well, it was inherent in the law." We will appreciate your cooperation.

Senator MAYBANK. Let me ask one thing: What you have said about the checks on these mortgages or the final check on the figures, would apply to sections 220 and 221, also, in your judgment?

Mr. HELD. Yes; I believe so. In connection with any rental project.

Senator MAYBANK. In section 221 where there is 100 percent, the cost should be certified when the project is completed?

Mr. HELD. I think the important thing is the setting up of the formula.

The CHAIRMAN. Would you say that your bank does not handle y title I loans?

Mr. HELD. No, sir.

The CHAIRMAN. Do you know whether or not in any instance the require the dealers to endorse the notes and guarantee the

Mr. HELD. No; I don't know of any cases where that would be. I whether the dealers would want to sign a note and obli-
ves for the payment of the note.

Mr. HELD. They would have to do it if it wasn't guaranteed
nent. If the dealer brought a note in to you and asked

you to discount it and it wasn't guaranteed by the Government as title I, you certainly would require that he stay on the note until it was paid.

Mr. HELD. That is right; unless he had the owner of the property sign the note and his credit was satisfactory.

The CHAIRMAN. I have always had pretty good credit, but they have always required that I stay on the note as the second endorser. Maybe my credit hasn't been as good as I thought it was, but I think I am 100 percent right that these finance companies and banks, when you go to a bank to sell them a note from one of your customers, think 99 $\frac{9}{10}$ percent of the time they say, "Sure, we'll take it. Just sign on the back of it." You know they do.

Mr. HELD. Yes; I think that probably is the basis.

The CHAIRMAN. Thank you very much.

Senator LEHMAN. Do you think any substantial number of houses can be built as a practical matter under section 221, on a \$7,000 limit, or even an \$8,600 limit, as provided for in the House bill?

Mr. HELD. I doubt very much in and around urban centers such as around New York, Philadelphia, and so forth, because of the high land cost. I do know there is a considerable number of houses below the \$7,000 range being built in Suffolk County, around Babylon and those places, and also in the southern areas of New Jersey at the present time, under title I, section 8, which is somewhat similar to this.

The CHAIRMAN. Let me ask you this question: Would you object and do you think it would completely ruin title I, if we required in every instance that it be two-name paper?

Mr. HELD. I don't think so. I don't think it would make any difference as far as the association is concerned.

The CHAIRMAN. The dealer gets the loan and then the individual homeowner can go down and borrow up to \$2,500 and spend the money as he sees fit. But, as he spends it, he certainly has got to spend it with the dealer, a dealer of some kind, a builder or a painter.

What would be wrong with making it two-name paper?

Mr. HELD. We would raise no objection to the additional security that would be provided by the additional name.

The CHAIRMAN. Why should dealers object to it?

Mr. HELD. Except to the contingent liability that may be involved in endorsing a large number of notes, that would be the only reason.

The CHAIRMAN. I still say in private business, where the Government isn't involved, they do it. Maybe we better call some of the finance companies and these people who buy bills receivable and notes receivable and financial sales, and see if I am not correct.

Mr. HELD. Of course, you are dealing with a lot of small contractors in a great many places and they may sort of pull back from endorsing—you might say—perfect stranger's note.

The CHAIRMAN. He isn't a stranger if he is doing business with him.

Mr. HELD. Well, he is doing a job for him. He is doing a carpenter or a plumbing job.

—MAN. If you would require two-name papers—I haven't any mind that that is a practical thing to do, but I am thinking about it—if you require two-name paper, I think I hate all the abuses that I have seen that have shown up. I just believe it would eliminate all of it.

Mr. HELD. You would probably still have the racketeer with you though.

The CHAIRMAN. Well, I don't know. I think you would find the dealers and the people who sold the homeowner the painting job or the roofing job or the flooring job or whatever it was, he would check into it thoroughly, if he knew he was going to have to stay on that paper until it was paid in full.

Mr. HELD. He probably would check into it.

The CHAIRMAN. There is no question about it.

I don't know that it would be 100 percent effective, but I think it would eliminate 90 percent or more of the troubles that we have had.

I think the trouble has been that everybody said, "Oh, well, Uncle Sam will make this good, so what do we care."

Mr. HELD. I don't believe that has been the attitude.

The CHAIRMAN. I don't believe on the part of everybody, of course not, but I am talking about the fellow who has caused the trouble, I think that probably was his attitude. Of course, there are just tens and tens and tens of thousands, the great majority, by far the great majority of everybody who has participated in this FHA program, title I and otherwise, been honest and conscientious about it. But you don't have jails for those fellows, you know.

The jails are for the other fellows. You don't have courts for those fellows, the courts are for the other fellows.

Well, I think that is one way that we might completely tighten that up. And the other, on section 608's, or where we guarantee 95 percent of the mortgages, if we require, when the project is finished, an accounting and adjustment, I think maybe we can eliminate all the problems handled there.

Give it some thought, will you, and see if you can find any loopholes in what we are talking about.

(The following was received for the record:)

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS,
New York 17, N. Y., April 30, 1954.

HON. HOMER E. CAPEHART,

*Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington 25, D. C.*

DEAR SENATOR CAPEHART: At the conclusion of my testimony before your committee last Thursday, April 22, you requested that the National Association of Mutual Savings Banks, for whom I spoke, submit in writing its suggestions for amendment of the housing bill now before you, to prevent the recurrence of the abuses of the character that were alleged to have taken place under the old section 608, emergency rental housing program, and under title I, the home improvement and repair program.

The Committee on Mortgage Investments of the National Association of Mutual Savings Banks considered these problems at a special meeting held on April 23, 1954, and has authorized me to incorporate its recommendations to you in this letter.

With regard to the prevention of the abuses of the character alleged to have occurred under the old section 608 program, it is our recommendation that all multiple-family housing programs and all special purpose rental-housing programs should be subject to the same insurance eligibility requirements as are now mandatory for the Federal National Defense Housing Insurance Loans. That the amounts should always be initially based upon the value of the property when the proposed improvements are made. That the mortgagor must certify her (a) that the cost of the improvements does not exceed the proceeds of the mortgage loan; (b) that the mortgage loan does not exceed the value of the property in this case the mortgagor is

lured to pay the excess of the loan over the costs to the mortgagee for application in reduction of the debt. Our association also recommends that it be made mandatory upon the borrower-builder to submit his construction or project auditing of costs at various stages of the construction by a certified public accountant selected by the Federal Housing Administration. The final amount the loan should not be permitted to exceed the certified costs as substantiated in the final audit. Cost of such audit should be borne by the mortgagor and allowable as an item of expense in the final audit.

In our opinion, the above suggestions have the following merits:

(1) All initial calculations of maximum loan would be based on "estimated value" rather than "replacement costs." It is our understanding that the expression "estimated value" has definite meaning both with FHIA and with the housing industry as synonymous with economically sound long-term value. It is to our understanding, from listening to the recent testimony before your committee, that the use of "replacement costs" or "necessary current costs" as a basis for figuring maximum loan was in part responsible for some of the alleged overbuilding in the old 608 program.

(2) The borrower-builder would be required to certify to his construction costs.

(3) The costs would be audited by competent and independent accountants.

(4) The tentative loan would be reduced to audited costs in case it exceeded use costs.

We would like to repeat our suggestion that the provisions for insuring loans in leaseholds in both section 207 and 213 should be eliminated and that this provision should not be introduced into any Government-insured or Government-guaranteed program. It is our opinion that this leasehold type of transaction would be an invitation to promoters to use the FHA devices and procedures for profit and tax advantages rather than for the construction of rental and true cooperative projects. It is our understanding that the leasehold provision was originally incorporated into the FHIA sections in order to enable rental properties to be built in those States where the use of the leasehold type of land tenure was additional. We have been informed that it is not necessary to the production of such rental projects, and its deletion from the FHIA basic law is recommended. We again question the advisability of continuing the section 213 cooperative housing insurance as an FHA program. As we have said in our statement before our committee of March 25, 1954, and again in our statement of April 22, 1954, the high limits on cooperative projects under section 213 might lead to the promotion of unsound cooperatives under the sponsorship of speculative developers. Section 207 has adequate provision for the financing of cooperative projects, and its lower limits on mortgage insurability might have a restraining effect on the production of unsound projects.

The National Association of Mutual Savings Banks has favored and supported most of the FHA programs for many years. It is our belief that the encouragement that FHIA gave to private building and private financing of homes was a healthy occurrence for the country. In our opinion, the success of the FHA programs stood off the strong demand in some quarters for the production of vast quantities of public housing. We are of the further opinion that the housing that resulted from the FHA programs represented better value and was produced at lower costs than comparable public housing.

The background of the now-expired section 608 program should be briefly examined in making suggestions for amendment of our present housing statutes. Section 608 came into being during World War II and continued to operate for some time during the postwar period. During these years the country faced a rampant shortage of rental housing. The country was faced with a real emergency, and it is our understanding that Congress wanted the production of a large volume of rental housing as quickly as possible. Examination of past congressional proceedings indicates that the terms were purposely made liberal and attractive. Thousands of good units and honest values were built under the 608 program, but it now appears that the liberal terms attracted some speculators who made unusual profits from their enterprises. Financial institutions that invested in 608 loans relied upon the FHA appraisals of costs, and it was the FHA who fixed the amount of the loans based upon their determinations of such costs. The FHA, with its research and cost-analysis departments, was much better equipped than investors to determine in advance what the cost figures were upon which the loan was to be based, and it undertook to do the job. The basis of the properties, therefore, was not determined by the investors but as determined by the FHA. In general, the investing institutions subjected these loans, before making or purchasing them, to studies aimed at determining

the long-term economic security of these investments. In short, the institutions' scrutiny of these loans was directed primarily to whether the properties could be expected to safely support the loans and would pay out during the course of their terms.

In suggesting the strong safeguards outlined in this letter, we must face the real possibility that they may result in a diminution of the production of rental-housing properties. We believe it to be a fact that the great bulk of rental-housing property produced during and after the war was done by speculative or operative builders who had no intention of keeping the properties for long-term investment. The country got the rental housing that it needed (see attached chart), and it now appears that in some instances large, if not excessive, profits were made in the process.

With regard to title I, the home improvement and repair program, our committee has learned that the savings banks hold few of these loans and that they are not a substantial factor in our business. We have learned that some of the savings banks that went into the title I program have switched over to making the same type of loans without FHA insurance. We have learned also that other savings banks are gradually switching from a title I home repair and improvement loan program to an independent program of the same nature and without the insurance. Some testimony developed during the course of the hearings before your committee in the week of April 19 that the improvement and repair loans made under title I represented somewhere between 10 and 35 percent of the total home-repair loans made in the country. We question the need and advisability of continuing the title I program. If the lending institutions can take care of 65 to 90 percent of the demand for these loans, then they probably can take care of the entire demand.

If the Congress decides that title I should be continued, certainly FHA should be given the money and the men to properly investigate and act upon the complaints that are received about this program. Such a force, coupled with the new regulations which went into effect late last year, should put this program in order without further legislation.

Very truly yours,

HARRY FELD,

Chairman, Committee on Mortgage Investments.

Permanent privately owned non-farm multifamily dwelling units started, 1945 to 1953, inclusive

	Total	FHA as part of total	Percent FHA to total
1945	14,777	2,363	15.9
1946	48,300	1,911	4.0
1947	1,150	30,766	26.8
1948	294,300	77,610	26.4
1949	125,777	111,178	88.4
1950	156,800	156,436	100.0
1951	57,400	73,590	128.2
1952	28,500	50,416	176.9
1953	87,800	35,939	40.9
Total	82,800	562,515	678.1

The CHAIRMAN. The next witness is Mr. John C. Williamson, secretary-counsel, realtors' Washington committee, representing the National Association of Real Estate Boards.

You have a statement, Mr. Williams.

STATEMENT OF JOHN C. WILLIAMSON
REALTORS' WASHINGTON
NATIONAL ASSOCIATION OF

SECRETARY-COUNSEL,

NATIONAL ASSOCIATION OF REALTORS

Mr. WILLIAMSON:

but I

like to read.

The CHAIRMAN:

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AMSON. My name is John C. Williamson, and I am secretary of the realtors' Washington committee, the legislative committee of the National Association of Real Estate Boards.

My association is appreciative of your invitation to return to this committee to make any additional suggestions we can make on the system of mortgage insurance.

That any abuses of that system, as recently alleged, should be rooted out at once. With respect to any provisions of the Housing Act which might lend themselves to abuses or to the intent of the Congress, be assured that we are most anxious to strengthen them so as to eliminate any such weaknesses.

As to making recommendations to the committee on this subject, Chairman, is this: The system of mortgage insurance

launched 20 years ago in the Federal Housing Administration, needed improvement in home financing. The overall FHA, operating upon its own revenues derived from premiums paid by borrowers, has amply vindicated the judgment of Congress in helping establish it. The insured, long-term amortized mortgage has been a basic tool in making the United States a nation in which a majority of families own their own homes. It has become a permanent feature in our national mortgage system.

That any weakness within this system of mortgage insurance should be eliminated, without shaking confidence in the system itself, would correct a weakness in our school system or court system without losing sight of the basic need and importance of the institution.

The history of fiscal institutions shows that perfecting action taken during the course of their development. So long as human equation influences the operation of man-made institutions, we must concede that abuses can creep into these institutions.

As we see evidence of the evolutionary process which has led to institutions such as our national banking system to their loss of public confidence despite the intermittent crises and has motivated the Congress into taking necessary corrective action from time to time.

Now to the allegations of abuses under section 608 and title VIII of the National Housing Act. While the record is not complete we must assume for the purposes of the recommendations and suggestions to make that the allegations are true.

18. It is academic to discuss changes in the section 608 program. Cause not only is the section no longer part of the National Housing Act, but the criteria of replacement cost as the basis for the determination of value is repeated nowhere else in the act, except under title VIII and title VIII programs.

LAYBANK. Mr. Williamson, did your association have any such windfalls in the fifties?

AMSON. I was counsel for the realtors' Washington committee beginning early in 1951.

LAYBANK. You were with the veterans before, were you?

AMSON. I was with the Veterans of Foreign Wars of the

I think it has been common knowledge in the industry, as well as in the Congress, as to mortgaging-out under section 608.

Senator MAYBANK. I do not think this committee had any idea that it was common knowledge that these windfalls were taking place.

Mr. WILLIAMSON. I don't know about the windfalls, sir. That is the question of degree.

Senator MAYBANK. You have seen in the paper where they have been 150 percent?

Mr. WILLIAMSON. It first came to my attention when I listened to the debates on the floor of the Senate when section 608 was terminated. I think it was brought out then that there were considerable abuses in the program. I think there has been general knowledge but, as to windfalls, to the degree we know of them now, I think it comes as quite a surprise. It certainly does to me.

Senator MAYBANK. You were with the Veterans of Foreign Wars at that time?

Mr. WILLIAMSON. I was assistant legislative director of the Veterans of Foreign Wars until late in 1950.

Senator MAYBANK. But it was common knowledge that they were mortgaging-out?

Mr. WILLIAMSON. Yes, but the extent of the windfalls certainly was not.

Senator MAYBANK. Why didn't some of you gentlemen come down here and tell the committee that? Well, you were not a member of the committee.

Mr. WILLIAMSON. I say there was a knowledge of mortgaging-out, which is a little different from the windfalls that we now know of. When I say windfall, that is getting out for considerably more than 100 percent. I had no knowledge of that.

Senator MAYBANK. Neither did we. It would seem that some of the bankers might have had knowledge of it and told the committee.

We reduced it to 80 percent, in this committee—and I think it was changed back in conference, if I am not mistaken, if they knew that they were mortgaging-out, the 80 percent would really have been 90 percent.

Mr. WILLIAMSON. The possibility of mortgaging-out under 80 percent of value formula is very remote.

Senator MAYBANK. They mortgaged-out to the tune of 150 percent, Mr. Williamson. It seems to me the business people of this country should have come down and told the committee instead of always coming down here and testifying that these banking institutions were changing as the years go on, but nobody came down here to recommend any change.

Even this year these gentlemen came here and I don't think any of them recommended any change. The business people could have made it easy on themselves to have come down here and told us the facts. It doesn't mean to say that anybody purposely did anything wrong.

Mr. WILLIAMSON. In analyzing the section 608 program—

Senator MAYBANK. These other programs have some of these things in it, too, you know.

Mr. WILLIAMSON. In the early postwar years our association was trying to bring about the elimination of rent control so as to encourage the flow of private capital into rental construction and the section 608 program was used to stimulate and to promote the flow of private capital into rental property.

Senator MAYBANK. Of course, that was true, but it promoted the use of the Government's money, the taxpayers' money. That is what we wound up doing. I don't mean in all cases, of course. I meant in certain particular instances, some 1,100, or maybe more. And then, of course, you have always opposed rent control, I think, and they have rent control in New York, but for every dollar of windfall there I be \$3 collected from the renter, in the end.

Mr. Held himself said that building costs have gone up and that true, but in 1948, 1949, and 1950 there were certain allocations and forth and the Government could be in for a tremendous loss, in my judgment.

I am glad that you gentlemen came around here and testified every year that it was a fine law.

Mr. WILLIAMSON. I don't believe we did exactly that.

Senator MAYBANK. Now, here is what Mr. Summer said before this committee when I was chairman.

Mr. WILLIAMSON. What year was that, sir?

Senator MAYBANK. 1951.

Mr. WILLIAMSON. Under the Defense Housing Act?

Senator MAYBANK. That is correct.

He said:

I wish to state, Mr. Chairman, that for years I have been a strong advocate of a priority plan by FHA to insure first the construction of section 608 projects which could be rented at the lowest rentals, and to increase progressively until units needed in defense areas could be provided.

I have had considerable experience with section 608 construction and I have managed the financing of many units, if not more than anyone in the State of New Jersey.

I cast no reflections against Mr. Summer, or anyone in New Jersey. I have in front of me a list of New Jersey projects which, of course, are confidential, that came from the Internal Revenue Service, and I think when we get through writing this bill, as I understand, the chairman at that time is going to go into an investigation. I will leave up these matters at that time, but I was shocked to see some of these New Jersey projects.

Mr. WILLIAMSON. Senator, I would like to say our recommendation with respect to the Defense Housing Act was 100 percent insurance but we were limiting that to the isolated and remote, critical defense housing areas and we did it for this reason—

Senator MAYBANK. I don't consider New Jersey such an area.

Mr. CHAIRMAN. Who was Mr. Summer?

Mr. WILLIAMSON. He is a past president of the National Association of Real Estate Boards.

Senator MAYBANK. When we start the investigation is when I want to know why you didn't tell us.

I am not going to delay the discussion here, but we want to find out what we can do, and what you gentlemen tell us we can honestly do to protect this present housing law that has passed the House and is before the Senate so none of these titles will run into the confusion that section 608 got into.

Mr. WILLIAMSON. That is why I am here and why we were so glad to accept the invitation.

Mr. CHAIRMAN. I think what he is trying to say, or at least what I am trying to say through these hearings is that from now on we are going to use more of our own judgment and even less of other people's.

Mr. WILLIAMSON. That is always a good idea.

The CHAIRMAN. You may proceed.

Mr. WILLIAMSON. The housing bill as introduced by the chairman of this committee provides for changing section 213 to the estimated value formula, although the FHA in administering this section even under the replacement-cost formula applies a strict anti-mortgaging-out regulation. The military housing provisions under title VII uses replacement cost as a basis because of the difficulty of capitalizing income and of applying the factor of economic soundness to a project designed primarily for military use.

We believe that estimated value as a basis for appraisal does not lend itself to mortgaging-out. However, we see a distinct advantage, in order to restore public confidence in the act, to amending the housing bill pending before this committee so that all insurance sections would have anti-mortgaging-out provisions.

Section 908 (b) (3) of the National Housing Act which the Congress created as part of the Defense Housing Act, has such an anti-mortgaging-out provision—which, incidentally, had bipartisan sponsorship—whereby the mortgagor must certify upon completion of the project that either the amount of the actual cost of the physical improvements—exclusive of offsite public utilities, streets, and of organization and legal expenses—equaled or exceeded the proceeds of the mortgage loan, or that he is applying to reduction of the principal obligation of the mortgage any excess of the mortgage loan over the actual cost.

Title VIII of the National Housing Act—Wherry housing—also has such an anti-mortgaging-out provision and we commend its addition to the rest of the act as a means of plugging any possible mortgaging-out loopholes in the title II program. Or, for that matter the remainder of the act.

Statements before the committee indicate that, aside from the program of insuring home repair loans, this inquiry has principally to do with insurance of mortgages on multifamily rental housing.

To provide an additional safeguard against weaknesses in this particular category of mortgage insurance, we propose to the committee that the present system of staff appraisals for multifamily rental housing be supplemented by independent appraisals as a check for the underwriting office.

Title I—modernization and repair loans: In regard to the title I program we are, of course, distressed at the abuses which have crept into the program. The importance of title I in stopping the spread of urban blight and in the prevention of slums cannot be overestimated and we are desirous of cooperating in every way possible to restore confidence in the programs so that it might make a maximum contribution to property rehabilitation which is the heart of the proposed urban renewal program.

It is easy to say that the abuses in the program can be corrected and held to a minimum by tightening up on administration of the program through adequate and timely investigations of complaints and forthright disciplinary action against guilty lenders and dealers.

To a great extent this is very likely the answer, and we applaud the regulations which became effective in December 1953. We are confident that had these strengthened regulations been in effect for several years along with an adequate investigative staff, the grave abuses would not be today threatening the very existence of the program.

However, we know from experience that regulations are no better in their administration and sometimes the Congress is moved to put the regulations into the law in order to focus the proper attention on their enforcement. Perhaps this might be the answer and we urge, therefore, that the committee consider this as a means of shoring up the title I program.

Because of the magnitude of the title I program, correction of abuses do not lend themselves to easy solution. This is particularly the case when the members of our association are not directly involved as participants in the title I program.

However, so much is at stake in this program that we are enlisting the study of all our real-estate boards to the correction of these abuses and the developing of methods for more effective implementation of the program at the community level.

I have here, Mr. Chairman, three copies of our weekly periodical known as *Headlines*, and they give an example of how we are trying to expose these gyp artists to the glare of publicity. One is entitled *Gyp Exposed*. Another one, "Model Home Trick Gyps Property Owners."

THE CHAIRMAN. What are the dates of those, Mr. Williamson?

MR. WILLIAMSON. I think they are December 1952. Two of them are December 1952, and one is July 1953.

THE CHAIRMAN. Do you put any examples in?

MR. WILLIAMSON. Yes.

THE CHAIRMAN. Without objection we will make those a part of the record.

MR. WILLIAMSON. Here are the excerpts.

The information referred to follows:)

BUILD AMERICA BETTER

The Omaha plan of rehabilitation under local law enforcement, backed by the Omaha Real Estate Board, is one of the promising programs now being put into action. Fritz B. Burns, Los Angeles, chairman of the NAREB Build America Better Council, reported last week.

Work began with inspection of three blocks on Omaha's near North Side containing 75 homes. Here are some findings:

About one-fifth of the houses need no repairs, and only 4 or 5 are "in really good condition." Estimated cost of repairs to bring property up to standard in average cases is between \$300 and \$400.

Principal deficiencies are poor sanitation, rubbish accumulation, and overloaded wiring. The rundown condition of the area was blamed in part on the city government for failing to collect refuse and to clean streets.

Residents of the area have a "deep urge for independence through homeownership," a fine spirit of cooperation, and surprisingly small indebtedness. Most mortgages ranged from \$300 to \$1,000, and only 1 owner had a mortgage as high as \$1,200, indicating that the owners can afford the needed repairs.

Unscrupulous repairmen prey on such owners. Chairman of the city inspection teams is advising owners to seek the aid of the Omaha Real Estate Board.

GYP EXPOSED

Realtor Dave Rundle, Fresno, Calif., recently saved a client from becoming a victim of an unscrupulous real-estate deal, similar to that reported in the December issue of *Headlines*.

The man had bought two houses from Mr. Rundle on small monthly payments. Subsequently, Mr. Rundle's office received a telephone call, while he was out, from a financing agency operated by a Los Angeles firm of roofers and siding men. Before returning the call, he checked with his client, who had

name as a reference, and found that he had signed a contract for \$1,750 to insulate his house. This was to consist of applying a quarter inch composition siding on a 30 by 40 foot house, and 18 squares of roofing over the old composition roof.

When Mr. Rundle explained how the man was being victimized, he was grateful. Mr. Rundle then called the Los Angeles operator and told him he was aware of his type of dealing. The Los Angeles company official apologized for his salesman's action and agreed to cancel the contract.

The material was en route to Fresno, however, and was left on a vacant lot near the house in question. A few days later, the salesman had made another deal and the material was used on that.

The better business bureau was advised of the operation and is watching the situation.

Realtors who are aware of swindles in the real-estate field, are urged to send the details to Headlines to help expose them.

MODEL HOME TRICK GYPS PROPERTY OWNERS

Homeowners in more than 40 cities are being gypped into expensive renovation jobs by the model-home trick used by unscrupulous operators, the Northwestern National Life Insurance Co. reported recently.

The company, with the cooperation of better business bureaus from coast to coast, found in a survey that slick salesmen are using the model scheme to get homeowners' signatures on contracts for imitation stone and brick siding, asbestos siding and roofing, mastic paints, basement waterproofing, patio work, water softeners, and dishwashers, as well as for complete renovation jobs.

With this scheme, the salesman or sales crew offers the homeowner what is represented to be a special low price if he will agree to allow the completed job to be shown to other prospective customers, on television, and in newspaper advertisements. Usually he is promised a commission on all sales which result from showing his model job. These commissions, he is often told, will pay the entire cost of his own job, or even show him a profit.

Actually the victim is merely suckered into signing a standard contract for work, and in many cases is charged double what an honest contractor would bill him for the job. In most cases, no prospects are ever brought to see his model home, and no commissions are paid to him. Often he gets substandard materials and workmanship besides.

Although fought by better business bureaus, FHA, and local officials, this racket springs up in one locality after being halted or slowed down in another, the insurance company said.

Better business bureaus reported the racket booming all along the Pacific coast, in the New York area, in Dixie, and in the Middle West. Exposure through publicity, combined with legal action, has slowed it down in some cities.

Realtors, who are aware of swindles in the real estate field, are urged to send the details to Headlines to help expose them.

Mr. WILLIAMSON. We ask that realtors aware of any swindles in this operation to advise Headlines so that it can be publicized, and in connection with our Build America Better program, in this particular article, the chairman of the city inspection teams was advising people to seek the aid of the Omaha Real Estate Board in that connection.

One way to combat this is through publicity and another way is through forthright administrative action when the FHA becomes aware of such conduct.

In connection with the National Association of Real Estate Boards, which will advise the Federal Housing Administration in the Federal Housing Administration's hearings toward the end of 1954. The action of the Association, with the necessary safeguards, will thereby assure at least

start this year on the tremendous task of slum clearance and urban renewal.

The CHAIRMAN. What is wrong with the principle, where Government is guaranteeing up to 90 percent, 80, or 85 percent, whatever the amount is in all sections of having a complete cost ascertained and then the mortgage adjusted. What is wrong with that?

Mr. WILLIAMSON. That is very desirable and it would come into being by our recommendation. Our amendment involves a determination of actual cost and the only way you can do that is by cost audit. I think that would be desirable and we recommend it.

The CHAIRMAN. I don't think FHA, of course, could hire enough people to do it but I think we could require that the builder file his actual costs under affidavit and if he swore, of course, to any statements that were incorrect, he would be subject to prosecution, just as he is in filing an income tax return that is wrong.

You don't see anything particularly wrong with it?

Mr. WILLIAMSON. No, sir.

The CHAIRMAN. You don't think it will hurt industry?

Mr. WILLIAMSON. I don't think so and I think it is very desirable.

The CHAIRMAN. Do you think it would hurt title I if we required that all the paper be two-name paper?

Mr. WILLIAMSON. Well, I think it would seriously jeopardize the program if you require dealer-endorsed paper. For one thing, this involves more than the question of the dealer supplying materials. There is labor that enters into it. I seriously doubt that any dealers would want to move into this program extensively and end up with a tremendous contingent obligation.

The CHAIRMAN. He has it on his private business. Let us say you are an air-conditioning man. You come and sell me air conditioning and I want to buy it on time, let's say 24 months. It takes a lot of labor to install it and when you get all through, first you bid on it, let's say \$25,000. You have a lot of labor in it, you have materials, et cetera, and I pay you 10 percent down, which is \$2,500, and I say, "I'd like to have 22 months at \$1,000 a month," and you say, "Fine," and I take it to my bank and he will give me the \$22,500, providing I endorse it, and then it is two-name paper.

I haven't definitely made up my mind yet that is practical and workable but I am trying to find some way to eliminate this title I abuse that allegedly has dropped into this. We will have Mr. Olney here tomorrow from the Criminal Division of the Attorney General's office. He will tell us a lot about title I abuses.

Well, you think about it. Will you get you board of directors together, now, and get them to thinking about eliminating the abuses here?

Mr. WILLIAMSON. We certainly will, Mr. Chairman.

The CHAIRMAN. I agree with the gentleman from Texas who said that we ought to reestablish confidence in FHA. We want to do that but we are not going to whitewash them. I don't think you can reestablish confidence now unless we take the necessary steps so that we can all stand up and say, "Well, now, as far as we know, we have taken all the steps necessary to see that this sort of thing doesn't happen again. I think only then that we will be able to regain confidence in the people, of FHA?"

Mr. WILLIAMSON. Of course, you have to rely upon proper administrative remedies to correct the situation. I think if the FHA would have done what I know the VA did in many instances, lowering the boom on some people who were violating the law, the word would generally get around that this is something one ought not to play with.

The CHAIRMAN. In other words, you think perhaps FHA had been too lax and hadn't disciplined their people?

Mr. WILLIAMSON. I assume all the allegations we have heard are true and based on that assumption I think if FHA had properly investigated and taken forthright disciplinary action, widely publicized, the word would have gotten around and there would have resulted considerable correction. I know the Veterans' Administration lowered the boom on a few lenders involved in violating discount practices and the word got around over the country; and I know of some lenders who pulled in their horns when they got word that the VA investigators were in town. Whether that solved the complete problem for the VA, I don't know, but I think it did a lot of good and I think that the title I program properly administered and with appropriate disciplinary action taken forthrightly, would remedy the situation. In addition put some of these regulations into the law because it focuses attention on their enforcement.

The CHAIRMAN. Let me ask you this: It has been testified and rumored and gossiped that FHA knowingly promoted people in the section 608 title projects, encouraged them to do what we now learn has happened. Do you know anything about that?

Mr. WILLIAMSON. We have no evidence of that. That is something I am sure the committee will discover as this inquiry goes on.

The CHAIRMAN. I am sure we are going to discover a lot of things but I just wondered whether you had of your own knowledge such information.

Mr. WILLIAMSON. No, sir.

Senator LEHMAN. I notice, Mr. Williamson, in the testimony given on this bill by Henry Waltrude, he testified that he recommended mortgage commitments under section 213 continue to be based on the estimates which will be the replacement cost of the projects when the proposed improvements are completed.

I notice in your testimony, you favor the insertion of an antimortgaging-out provision, and a certification of the actual cost and that the mortgage not exceed the actual cost of the property. That is a change, isn't it?

Mr. WILLIAMSON. We suggest you take the regulation which the FHA is administering on section 213's and write it into the law. They have a strict antimortgaging-out regulation which they are applying and as far as we know it has been very successful in preventing mortgaging-out on cooperatives.

Senator LEHMAN. That, of course, would change your proposal for replacement.

Mr. WILLIAMSON. I think under the present circumstances it might be well even to write such things as are in the regulations, just write them into the law. But I checked with the FHA, and have studied their method of operation on antimortgaging-out under section 213. I think it is very good and it does the job, but it probably ought to go in the law.

Senator LEHMAN. Some of the witnesses have testified that in their opinion, a certification plan would penalize the efficient builder, and give an advantage to the inefficient builder, because naturally the mortgages would be higher in the case of the inefficient builder. Do you subscribe to that?

Mr. WILLIAMSON. I don't think it would eliminate all the advantage. It might eliminate some, but I think it is worth a try and I don't think it is as bad as all that.

Senator LEHMAN. With regard to certification, do you think there would be any advantage to having a renegotiation clause in the contract which would be invoked, however, only in the event that there was some suspicion that the certification did not give a correct picture of the situation? The reason I ask that, is this: Obviously there are great physical difficulties in making a check of this certification within any reasonable time, and therefore a phony certification might not show up for 2 or 3 or 4 years. Under the present system there apparently is no recourse. But if you had a renegotiation clause which would make it possible to reopen the figures as to cost within a reasonable period—say up to 4 years, as they have, of course, in many of the procurement contracts in the Government, there would be a means of recouping the excess payments that were given to the man under the mortgage provisions.

Mr. WILLIAMSON. In my opinion, it would kill the program. You would have to record a mortgage that would be subject to renegotiation at a date subsequent to its recording. I think it gives rise to so many problems that in my opinion it would not work. I think that some renegotiation is desirable—which is actually what we are doing on this cost certification—that is, a renegotiation upon completion of the project. I certainly think that will accomplish the objective.

But, if you consider renegotiation 2 or 3 years subsequent to the recording of a mortgage, you just won't get people into the program. That is my opinion.

Senator LEHMAN. I refer now to the chairman's suggestion that you deal with two-name paper. I think I understood you to say that you believed while it might do away with some part of the racketeering it would certainly slow up the program.

Mr. WILLIAMSON. I think it would, sir.

Senator LEHMAN. Is that because of the possibly very large contingent liabilities assumed by the builder?

Mr. WILLIAMSON. That is right; and the fact that you are dealing with a great number of small loans. We are trying to get all our real-estate boards to come up with suggestions and maybe somebody will come up with something. Maybe it isn't as bad as I pictured it, but in my opinion I think it would seriously hamper what is a very good program and which could make a great contribution to this country.

Senator LEHMAN. As I understand, your objection would be due to the fact that the bills are relatively small—they are men with relatively small amounts of money—and if they were on a number of two-name notes, that would create a contingent liability which would be difficult for them to operate.

That is right. I am thinking of a lot of small Montgomery County who replace porches and roofs

and things of that nature. I don't think they would come into this program if the paper was recoured to them.

The CHAIRMAN. Well, they might if they needed the business. Well, it is worth thinking about. It is one suggestion, only.

Mr. WILLIAMSON. It is, sir. We are all agreed on the objectives.

Senator FREAR. I would just like to ask Mr. Williamson his opinion regarding cases where the appraisal is more than the actual cost. If we had a rule or regulation where it could not be more than the actual cost, and the people who have been violating section 608 were still in the construction business and want to do what they did under section 608 could they not pad their actual costs as well? Couldn't they put in an extra amount of material, claiming it double or triple in the construction of a project?

Could they not also take from a subcontractor something at a padded price?

Mr. WILLIAMSON. You run into difficulties if you rely just on cost. That question came up yesterday and Senator Bennett said at least if they didn't watch their costs, the purchaser would get something out of the money, because it would go into the property. But if you rely entirely on costs, costs will naturally be padded or they won't be as careful in costs as some of the builders who have made money on these rental projects. Even on section 207, on a \$2 million project one builder who sells the project can make \$50,000, and another one \$200,000. If you told the one who made \$200,000—if you said that he could only make \$50,000, I think that you are penalizing efficiency.

The CHAIRMAN. How could he do it on section 207?

Mr. WILLIAMSON. It is based on estimated value. I mean even on section 207, one builder—maybe that is too great a difference, but builders don't always make the same amount of money on a project. Some builder will make less than another builder, even on a section 207.

The CHAIRMAN. You say one might make \$50,000 and another \$200,000 on a section 207. How can he make anything, when he still owns it? If I am thinking wrong I wish some of you gentlemen in the industry would straighten me out. It has been worrying me ever since this investigation started. How can a man make something of something that he still owns? Except when he might want to liquidate his corporation.

Mr. WILLIAMSON. That is right. You see you can have an estimated value of a section 207—let's say it is \$2 million, and your mortgage is \$1.8 million, or 80 percent. That is the firm commitment, that the mortgage will be \$1,800,000.

The CHAIRMAN. What you really have been saying is that they can build it for less and not make a profit; aren't you?

Mr. WILLIAMSON. That is right. They can build it for less.

The CHAIRMAN. But he still owns the property so where did he make a profit? If he sells the project to somebody else for \$1,800,000 or \$2 million, he makes a profit, but as long as he holds it, why does he make a profit?

Mr. WILLIAMSON. It just cost him less to build it.

The CHAIRMAN. I guess you are going to have to get me in private and tell me about this.

Mr. WILLIAMSON. Under the section 207 program, with a ratio of 1 to 1, based on estimated value, he isn't going to get a \$1,000 mortgage. If you have the cost certification provision and does build it for less, the mortgage is reduced by the excess.

The CHAIRMAN. Did you think that these gentlemen involved in section 608's just felt they were selling the property to the Government for the amount of the mortgage? Is that the attitude they have, just say, "We will get as high an appraisal as we can, we will bid it for as little as we can, and the difference between the amount paid and the mortgage will be our profit"?

Mr. WILLIAMSON. I don't know what they were thinking. I think I will probably find that out in the course of this investigation. I will say this, that with respect to some of the examples which you presented here about a \$3 million mortgage on a \$2 million cost-of-construction figure, I believe it would be an understatement to say that is unconscionable. But I don't know what they were thinking about, the builders, or anybody else. It is a little difficult for me to comprehend the situation as it must have existed to have resulted in so large a difference as \$1 million in a \$3 million project.

The CHAIRMAN. Take this example of a corporation that started with \$2,000. That got a mortgage of \$4,850,000. It cost them \$500,000. They ended up with approximately \$600,000 more in the mortgage than the cost, and they got a \$4,850,000 mortgage. They paid out \$4,200,000 to have their project built, so they had \$600,000 in the bank, the corporation did, you see. It was there. It was sitting there as cash in the bank. And yet they owed the \$600,000, because they had a \$4,800,000 mortgage. But in eleven-hundred-and-some cases they turned around with \$600,000—not that amount in any instance—and distributed it to the stockholders and wanted to pay a capital gains tax on it.

Mr. WILLIAMSON. That is because section 608 didn't require the corporation to be concerned about actual costs. That is why, in the absence of fraud or collusion, there is nothing illegal about it. It was just something the law permitted.

The CHAIRMAN. They sat there, having put \$2,000 in it, it is a corporation, and if the project goes bust, the United States Government holds the bag. That is the holder of the mortgage does, and if the mortgage isn't paid, then whoever bought the mortgage, he sends the note down to Uncle Sam and says, "Please send me \$4,850,000." And we end up owning the property. That is the pattern all through the whole business.

Do you have never heard of any instances, then, where FHA officials or employees encouraged people to get into business and do this sort of thing?

Mr. WILLIAMSON. If such promotional activity was underway, it opened before I came with the association. It must have happened before 1946.

The CHAIRMAN. You have no personal knowledge of it?

Mr. WILLIAMSON. No, sir.

(The following was received for the record:)

NATIONAL ASSOCIATION OF REAL ESTATE BOARDS,
REALTORS' WASHINGTON COMMITTEE,
Washington, D. C., April 26, 1954.

Hon. HOMER E. CAPEHART,
Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR CAPEHART: I believe you will recall my testimony before the Senate Committee on Banking and Currency on April 22 in regard to tightening up the pending housing bill, S. 2938, so as to avoid, or at least reduce to an absolute minimum, the types of abuses in the FHA program which have been revealed before your committee.

I want to take this opportunity of emphasizing the importance of our recommendation providing for the use of independent appraisers as a check on the present FHA staff appraisal system particularly for multiunit rental projects.

It is significant that the Veterans' Administration home-loan program uses the fee (Independent) appraisal system. The system is considered to be a superior one not only by VA, but by many builders and lenders, and what is even more important, by the major veterans' groups who have never relaxed their zealous regard for the basic philosophy underlying the veterans program. It is unfortunate, but nonetheless a fact, that in the past the VA has attempted to use staff FHA appraisers in order to avoid undue duplication of effort with respect to certain developments, but has had to discontinue such use because of a lack of confidence in the staff system.

The VA regional loan guaranty offices maintain lists of approval professional appraisers who have had at least 5 years practical experience in appraisal work including appraising for mortgage loan purposes. These appraisers must also be recognized by the local courts as qualified to render expert testimony in condemnation as well as other judicial proceedings involving the appraising of real estate. As of February 1954 the VA has 5,381 real-estate appraisers on its approved list as well as 2,433 compliance inspectors, some of whom are also appraisers. On the other hand the Federal Housing Administration has 546 staff appraisers, including 23 trainees, who are all salaried Government employees. The VA fee appraisers are paid a fee by the builder or the purchaser from \$15 to \$25 per dwelling unit based on the fees for similar services in the locality. The value of the property has no bearing on the amount of the fee.

Another advantage of the fee appraisal system is that it is not subject to budgetary limitation. Also, the number of available fee appraisers are never affected by the fluctuations in volume of building. On the other hand a staff system is subject to conditions, such as budgets and appropriations for salaries, which are not always accurately related to the actual needs in a particular area.

I wish to emphasize that the fee appraisal system as it operates in the VA, and as we recommend it operate in the FHA, is advisory to the regional offices which contain a salaried nucleus of staff appraisers. We thus have a combination of professional appraisers and staff technicians which affords the proper crosschecks which result in greater protection to the consumer than would be afforded by the wholly staff system.

We strongly urge that the pending housing bill be amended in order to provide for the use of independent appraisers by the Federal Housing Administration.

Respectfully yours,

JOHN C. WILLIAMSON, *Secretary-Counsel*

The CHAIRMAN. Thank you very much. You have been helpful; we appreciate it.

I think it is 12:10; until 2 o'clock, at which time we will have as witnesses Mr. Second National Bank of Washington, representative of the National Bank Association, and Mr. Wieser, representative of the National Association of Home Builders.

We are going to reconvene at 10 o'clock, in which we have gone to the Senate Chamber. (Whereupon, the committee adjourns.) We will reconvene at 2 p.m.

AFTERNOON SESSION

The committee reconvened at 2 p. m., Senator Homer E. Capehart (chairman) presiding.

The CHAIRMAN. The committee will please come to order.

Our first witness will be Mr. Reilly, president of the Second National Bank of Washington, representing the American Bankers' Association.

Mr. Reilly.

**STATEMENT OF JOHN A. REILLY, AMERICAN BANKERS
ASSOCIATION**

The CHAIRMAN. You have a statement, I believe, Mr. Reilly?

Mr. REILLY. Yes, Mr. Chairman.

The CHAIRMAN. Then you may proceed in your own way.

Mr. REILLY. Thank you, sir.

My name is John A. Reilly. I am president of the Second National Bank of Washington, D. C. I am also a member of the committee on Federal legislation of the American Bankers' Association and chairman of its subcommittee on mortgage financing and urban housing. It is in this capacity that I appear here today in response to the request of Senator Capehart that suggestions of the American Bankers' Association be presented to this committee relating to possible amendments of S. 2938, known as the Housing Act of 1954, which should minimize the danger of recurrence of alleged conditions that have occurred in connection with insured home financing.

We appreciate the urgency and necessity for obtaining this information by this committee, as evidenced by the request of your chairman on April 19, to present our viewpoint. However, in the absence of specific and complete information as to the nature and extent of the conditions alleged to have existed, our views cannot be definitive at this time.

We would like to reaffirm our previous testimony on S. 2938, which dealt primarily with the first three titles of this bill. While in sympathy with the general objectives set forth in the bill, we do not favor some of the methods for achieving the objectives on the grounds that its provisions tend to involve the Government more deeply than ever in the housing and home financing field.

The American Bankers' Association has consistently advocated the extension of sound housing credit. It has opposed the excessive liberalization of loan terms. This position is not induced by the current allegations directed at FHA-insured financing, but is a consistent policy of many years' standing.

FHA title I loans: As a means of avoiding the recurrence of conditions recently alleged in FHA, relating to repair and improvement loans under title I, it is recommended that FHA pursue a thorough program of policing loans, under authority already at its command, and in conformity with recognized sound practices of private insuring organizations.

In the report of the President's Advisory Committee on Government Housing Policies and Programs, specific steps were proposed to strengthen the administration of the title I home repair and improvement program. FHA put these recommendations into effect Decem-

ber 1, 1953, by amending its title I regulations and made them a requirement of the insuring program. If these amended regulations were forcefully applied, they will help materially to achieve the desired objectives. Too short a time has elapsed to observe the effect of these regulations.

The recommendations in the report of the President's Advisory Committee on Government Housing Policies and Programs, adopted by FHA as amendments to its title I regulations, are as follows:

1. Require that approval of the dealer by the lending institution be evidenced by an application signed and dated by the dealer on a form furnished by the Administration. The lending institution must investigate all dealers from whom it has not purchased notes during the past 12 months and must certify that it has found the dealer reliable, financially responsible and qualified to perform satisfactorily the work to be financed and to extend proper service to the customer.

2. Require that the lending institution maintain a loan record of its experience with its approved dealers that will reflect the volume of loans purchased, losses sustained and any complaints or irregularities. Such record shall be considered in determining the lender's financial relationship with the dealer and shall be available for inspection by the FHA.

3. Require the lending institution to deliver a notice to the borrower of the approval of his credit application at least 6 calendar days before disbursing the note proceeds to the dealer. The purpose of the notice is to inform the homeowner of the basic terms of the program of credit and to give him an opportunity to contact the lending institution if he has any question regarding the transaction.

4. Make a loan ineligible for insurance if the lending institution has knowledge that as an inducement for the consummation of the transaction the borrower has been given or promised a cash payment or rebate or it has been represented to the borrower that he will receive a cash bonus or commission on future sales.

5. Require the dealer to certify in his completion certificate that the borrower has not been given a cash bonus or promised a cash payment or rebate, nor has it been represented to the borrower that he will receive a cash bonus or commission on future sales as an inducement for the consummation of the transaction. The dealer must certify that all bills for labor and materials have been or will be paid and that if any of the representations appearing on the completion certificate prove incorrect, the dealer will promptly repurchase the note.

The CHAIRMAN. You think it might be well to write those into law?

Mr. REILLY. Well, it would have more force, I think, if the Senate writes them into the law, but as I understand, a regulation made under the result of law has the force of law.

The CHAIRMAN. They can change the regulations but they can't change the law.

Mr. REILLY. That's correct, sir. I would see no objection to it if the Senate writes them into the law. These amended regulations are designed to eliminate misrepresentation and at the same time to permit the maintenance of a practical lending operation.

should like to repeat a portion of my previous testimony on 2938 with reference to the expansion of terms of title I loans:

Expenditures for materials and supplies going into home repairs and improvements should generally be financed over a short period of time in the same manner that the purchase of other consumer durable goods are financed for otherwise the whole credit base of the country is weakened. During recent years the banks have been making every effort to hold the line on maximum amount of consumer credit. If any expansion of terms of FHA title I loans is effected it will inevitably bring pressure to bear for term expansion on other types of consumer credit loans, which we believe would not be sound for the borrower, the lender, or for the economy.

And, I think, Mr. Chairman, that would go a long way toward solving a great many of these things that have happened that you are now investigating if that program was followed.

We feel further that the expansion of terms as proposed in S. 2938 would lend itself to the recurrence of the conditions which you are going to correct.

Rental housing: We understand that the conditions which have been alleged to have existed in the rental housing insurance program in those projects insured under section 608 of the National Housing Act, which was a part of the war housing program, and arose out of the methods of appraisal and evaluation provided in that section, were based on "current costs."

If similar conditions exist today, they would have to be in section 213 of the National Housing Act, or the urban renewal projects provided in S. 2938.

As a possible means of preventing recurrence of the alleged conditions under section 608, we recommend that consideration be given to amending those provisions in S. 2938 which relate to large-scale projects, including cooperative housing projects under section 213 of the National Housing Act and those intended to assist in slum clearance and urban renewal activities in order to require that the cost-to-value ratio be determined by FHA on an estimate of total cost, based upon "economic soundness," and not upon estimated rental cost."

THE CHAIRMAN. You don't like the idea of adjusting the mortgage to the actual cost when the project is finished?

MR. REILLY. If the costs are unusually high, it doesn't seem to me, that that would be sound over a long period of time. It would seem to me there would be no objection to either cost or economic soundness, whichever is lower.

THE CHAIRMAN. What do you mean by economic soundness?

MR. REILLY. This is a very broad term, I admit, Senator. They go into consideration the rental value, the location of the property, quality of the construction and everything relating to the property throughout its potential life over a period of years.

THE CHAIRMAN. Under any circumstances would it be more than the actual cost of the project?

MR. REILLY. It is possible that it could be.

THE CHAIRMAN. How and why?

MR. REILLY. The cost may be low and the economic soundness higher. At the bank I saw we had an appraisal on a piece of property that was \$2,500—not an FHA deal but a conventional deal. The bank raised it to \$3,250 on it and it sold for \$2,900.

The CHAIRMAN. Since the property is constructed for the purpose of rentals, meaning that the income from rentals is the source revenue, why do you object to the actual cost of any specific project?

Mr. REILLY. Except that the cost might be abnormally high and might, over a period of years, not be worth enough. We say "estimated cost." We don't say, "actual cost" in this statement here.

The CHAIRMAN. If it is abnormally high, then I would think your bankers and insurance companies would take as good a look as you would as if the Government wasn't behind it and say, "No, we don't want that mortgage."

Mr. REILLY. It would caution us to consider how much of a mortgage we would make on it. We might lower the amount of the mortgage, if it was abnormally high.

The CHAIRMAN. I am not trying to be critical, but I do not quite follow this. I know most of our witnesses have followed this philosophy that you have so there must be some virtue in it, and merit in it. Otherwise you wouldn't all be talking about it, but it still isn't quite clear to me how we should ever deviate away from the 90 percent, 95 percent of the actual cost.

Mr. REILLY. Of course, the actual cost on an audit could have been padded. You might not pick it up. Economic soundness on a full appraisal would correct that.

The CHAIRMAN. Who is to make the appraisal?

Mr. REILLY. An independent man capable of making the appraisal who is experienced in the field, who the banks generally select. Someone qualified to do that job and if the thing looks abnormally high based on cost, he wouldn't appraise it. Many appraisals are made substantially less than alleged cost. It seems that is a much safer program than to just take your cost and make that the base when there are so many things that can go into that cost.

The CHAIRMAN. I see your point, and I think it has some merit to it. We have to find out who the appraisers are going to be.

Mr. REILLY. I think you have to rely upon the financial institution to pick competent appraisers. They would be very foolish if they didn't do it. Outside competent appraisers who have no interest in the project, directly or indirectly, expect to give a fair appraisal of it. That is what we do in the banking business.

The CHAIRMAN. Under the law now, if I understand it correctly and the regulations, a man under rental property who gets, say \$500,000 more for the sale of his mortgage than the project cost him, he can't declare a dividend—

Mr. REILLY. No, but he can use that money.

The CHAIRMAN. He can use the money, but he can't declare a dividend without consulting with FHA. He can't sell it without consent of FHA. He must give them a yearly financial statement and then set his rents.

Mr. REILLY. That's right, but he does get the use of that money which he might use and might not be able to repay.

The CHAIRMAN. He could loan it to himself and pay interest on it.

Mr. REILLY. Or pay no interest, which may very easily be an abuse.

The CHAIRMAN. As I understand the situation he cannot declare a dividend, as they have been able to do or have done without the consent of FHA. Now, we have to find out, of course, those who do. I don't know whether there are 1,149 of them, but there are a lot

them and we have to find out from FHA if they gave them permission to do it.

Mr. REILLY. As you point out, there is no profit until he sells the corporation, but if he has the use of the money the abuse can come in there.

The CHAIRMAN. Do you like economic soundness to be appraised by outside appraisers on an economically sound basis?

Mr. REILLY. We debated that when your telegram arrived.

The CHAIRMAN. Would you add to that, giving effect, likewise to actual costs?

Mr. REILLY. Whichever is lower. I would see no objection to that. If the full cost was lower than the economic soundness, I would see no objection to that. If it was higher, I would see objection to it.

The CHAIRMAN. I can see some merit in what you say. We are glad to get your point of view on it.

Now, you talk both about title I and title II. Do you think we could well afford to eliminate title II?

Mr. REILLY. No, I don't think so, Senator. I think title I has served a useful purpose. I think it enables the homeowner to do some things which perhaps he could not otherwise do. If the bank carefully screens these loans and sees that the borrower is able to pay back and doesn't rely entirely upon the dealer, I think the title I serves a useful purpose.

The CHAIRMAN. Do you think it would be practical or impractical or workable to try to make title I loans two signatures?

Mr. REILLY. I think it would be very impractical, sir. I think the effect of it would be that the good dealers, in the first place, wouldn't do it. They would move out of the program. Those who don't care whether they endorse, or not, of course, they might endorse it just to get their sales and make their profits on it.

I think, also, there is another important thing.

The CHAIRMAN. Senator Bricker suggested maybe that all dealers or lending agencies be bonded. Do you think that has any merit?

Mr. REILLY. Well, I don't know what you would bond them for.

The CHAIRMAN. As I said before, it isn't quite clear to me, but it evidently has some merit to it and we will have to get into it a little deeper.

Mr. REILLY. I don't know what you would bond them against. You often run into situations in title I where there is a dispute between the homeowner and the dealer. The reputable dealers we have come in contact with make those things good. The irresponsible ones don't make them good and then we get rid of them. We don't deal with them any more.

The CHAIRMAN. I understand there have been many sales organizations who have gone out and sold homeowners a lot of orders and then would call in the dealers in a given town or neighborhood and let them bid and sell the orders to the highest bidder, and make the difference between what the dealer was willing to make the improvement for and what they sold it at.

Mr. REILLY. I think a bank who would take that kind of paper would be very foolish creditwise.

The CHAIRMAN. Well, they have taken a lot of it.

Mr. REILLY. That may be, but I do think the bank who relies on that 10 percent insurance reserve is getting into a dangerous field.

The CHAIRMAN. Do you have title I loans?

Mr. REILLY. We have done a considerable title I business and it has been very lucrative.

The CHAIRMAN. No section 213 loans, cooperative loans?

Mr. REILLY. No.

The CHAIRMAN. You think these regulations, then, that Mr. Holaday, I believe, put in, last fall, are helpful?

Mr. REILLY. I think they should be helpful, but I think you have to wait a little while until they have been on the books for some period of time to determine how useful they are, but I think it is a step in the right direction.

The CHAIRMAN. Well, thank you very much. You have been very helpful and we appreciate it. I wish you would keep thinking about this subject and this problem.

Mr. REILLY. Our committees are working on it all the time, sir.

The CHAIRMAN. It isn't an easy one.

Our next witness is Mr. Vieser, vice president of the Mutual Benefit Life Insurance Co., representing the Life Insurance Association of America, and Mr. Jewett, vice president of the Prudential Insurance Co. of America; Mr. Meredith, executive vice president of the National Life Insurance Co., of Vermont.

STATEMENT OF MILFORD A. VIESER, ACCOMPANIED BY JOHN G. JEWETT, AND L. DOUGLAS MEREDITH, REPRESENTING AMERICAN LIFE CONVENTION AND LIFE INSURANCE ASSOCIATION OF AMERICA

Mr. VIESER. My name is Milford A. Vieser, vice president of the Mutual Benefit Life Insurance Co., of Newark, N. J., and chairman of the joint committee on housing and mortgage lending of the American Life Convention and the Life Insurance Association of America. It is in the capacity of chairman of this joint committee that I testify here today. My associates, who are both members of the committee, are L. Douglas Meredith, executive vice president of the National Life Insurance Co., Montpelier, Vt., and John G. Jewett, vice president of the Prudential Insurance Co. of America.

The allegations of abuses, maladministration, and possible misconduct in connection with the operation of various FHA programs are a matter of national concern, and we are greatly impressed with the prompt action you have taken. We are pleased to be here at your invitation.

A year ago the life-insurance business made available to the Housing and Home Finance Administrator, the FHA Commissioner and the President's Advisory Committee on Housing a statement entitled "National Policy on Housing and Mortgage Lending—a Statement of Life Company Views." This statement was attached to the presented to your committee on March 19, by Carrol M. of the Prudential Insurance Co. of America. At ago, we stated that:

mortgage insurance is, if administered soundly and
 cle for lending stability to home building and
 mortgage insurance as set forth in the preamble
 Act is basically sound, but there is evidence that
 from the original plan. The FHA should return

to the function originally intended, namely, purely as an insuring agency to be operated on business principles and with adequate reserves in order to make its maximum contribution to a stable mortgage market.

We think it is timely to emphasize that the FHA system has been a great force for good in this country. When originated in the early 1930's it did much to aid the revival of home-building activity and it has many important accomplishments to its credit. The FHA has had a far-reaching and salutary effect on all forms of home financing far beyond just FHA mortgages. It has virtually eliminated second mortgages; it has led to the development of long-term loans with level monthly payments; it has encouraged the development of higher construction standards and better land-planning practices; and it has led to improved mortgage-underwriting standards. Over 90 million policyholders through their life-insurance reserves have an interest in \$9.6 billion of Government insured and guaranteed mortgage loans and our experience with these loans indicates that they are excellent investments.

The FHA system, along with the GI loan, has been a tremendous force for good in this country in that it has encouraged the American people to be homeowners and has brought homeownership to the largest percentage of our families in history. We have, of course, been critical of some aspects of various FHA programs from time to time, and most of these views are listed in our statement on housing which I mentioned earlier. The fact remains that the FHA is basically needed in this country and has had on the whole an outstanding record. It is imperative that if any abuses exist in the FHA system, they should be rooted out, but it is important that FHA be maintained in the essential role it has played as a vehicle for sound home financing.

As you know the life-insurance companies are long-term lenders and do not make loans under the title I program, so that I shall not address myself to it.

In considering new housing legislation, we believe that your committee should review those sections in which provisions for the maximum insured loan are defined as a percentage of "estimated" or "appraised" value in a way which might easily lead to excessive profits as is alleged to have been true under the section 608 program. We would respectfully suggest that your committee carefully consider a provision that as the construction of a project advances, be it a group of single-family residence or a multifamily residence, the builder must submit an audited cost statement or an affidavit of actual cost. In no case should the loan exceed a stipulated percentage of the actual cost. While this procedure would not be a cure-all, it would go a long way to eliminate the alleged abuses, and it would also furnish a valuable source of information on construction costs for the underwriting of other projects.

It should be emphasized, however, that cost alone is not the sole factor which determines the value of a project. The economic value of a housing project is determined by a projection of the income which may be expected over a long period of years. Good mortgage lending dictates reconciliation of economic value and actual cost. This can be accomplished only by men trained and experienced in mortgage lending who know how to analyze cost, estimate income and expenditures, and who constantly keep in touch with current market conditions. The alleged abuses which your committee is about to investi-

gate indicate clearly how important it is that FHA be staffed adequately and with competent personnel. This can be accomplished only with adequate appropriations. In addition to having satisfactory personnel, any governmental organization, as well as private organization, in conducting a sound mortgage-lending operation should have a thorough and complete system of review—a system of checks and balances from the field office through the regional office to a final board of review on large projects.

Whenever FHA departs from being an insurer of loans on economically sound projects and sponsors special-purpose programs such as war housing and emergency rental housing and embraces in these programs high-ratio loans, a greater opportunity for these alleged excesses exists. We have historically opposed FNMA. At no time has there been any shortage of mortgage money for sound projects at market interest rates. The continuation of FNMA would provide a place of more easy access to loans of questionable soundness.

Our statement has been brief. We have not had time to consider these matters with the various committees of our two associations. I assure you, however, that we shall be pleased to cooperate with your committee to the best of our ability and shall be glad to place at your disposal all of our facilities for the study of any specific questions you may care to submit for our consideration.

We will be happy indeed to answer any of your questions.

The CHAIRMAN. Mr. Jewett, you are vice president of the Prudential Life Insurance Co.?

Mr. JEWETT. Yes.

The CHAIRMAN. You hold the mortgage on Green Oaks Village?

Mr. JEWETT. Yes.

The CHAIRMAN. You hold all the mortgages on that?

Mr. JEWETT. I don't know that we hold all of them.

The CHAIRMAN. You do hold some of them.

Mr. JEWETT. That's correct.

The CHAIRMAN. They are 1 of the 1,149 cases that we have before us.

To be helpful to our committee, here, I would like to ask a few questions about that. Did your appraisers go out and appraise these properties?

Mr. JEWETT. In 1 way they do, and in 1 way they probably do not. We do not make FHA loans just because of FHA insurance. I presume over the years we have declined as many of FHA loans as we have made. We check every location. We examine the plans and specifications, we check the rentals in the neighborhood, we look over the floor plans for room sizes and apartment layout to see that it is a desirable apartment that is to be constructed. We make our own estimate of income and expenses projected over a period of years and decide whether or not a loan should be made on that particular property. We would not make a cost breakdown appraisal of the number of yards of concrete or the number of board feet of lumber or bricks and so forth.

The CHAIRMAN. You don't remember, of course, whether you have all the mortgages.

This corporation—they had 28 corporations. Their total mortgages insured by FHA was \$24,350,000—I'm just using round figures: The costs of the projects were \$20 million, and they made in excess of \$4,250,000, and they distributed to their stockholders out of that \$4.

10; \$350,000 was the difference which represented depreciation, or earnings when they rented them. I am asking these questions not because you happen to have this, because I suppose most life insurance company in the United States has loans similar to these. I am pretty sure they have all had a section 608, but do you go behind the mortgage at all? For example, I find that in one of these 28 corporations there were just 12 stockholders and they invested only \$15,000. That particular one took out \$800,000 in dividends. That was the distribution to stockholders. At the time all of it invested was \$15,000. They might have used their credit, but that was the total invested. They took out \$800,000 in dividends, and I find another one here of these 28, \$7,500 invested, and took out \$350,000.

Another one, \$7,500 invested, and they took out \$240,000, and on the line. The ones that I have before me, here—I find 1 here in which they only invested \$1,350, it looks like, and took out \$144,000. You pay no attention to the corporation, that is the net worth or gross worth of the corporation from whom you purchased these mortgages?

Mr. JEWETT. A great many of the mortgages are on completed projects.

Mr. CHAIRMAN. You just looked to the project itself to cover your project?

Mr. JEWETT. That's right.

Mr. CHAIRMAN. And you didn't look beyond the property to see if the corporation behind it had any assets?

Mr. JEWETT. No, we were looking to the property.

Mr. CHAIRMAN. You had no written agreement or understanding of these concerns that they were not to declare X amount of dividends?

Mr. JEWETT. No, sir.

Mr. CHAIRMAN. You just took these mortgages. They were guaranteed by the Federal Government, and you took them.

Mr. JEWETT. They were apparently attractive propositions which had economic value that was sufficiently great.

Mr. CHAIRMAN. I don't question that at all.

What we are trying to find out, of course, is how an FHA appraiser could make such a mistake in the appraising of these properties.

For example, here is one where the cost is \$3,800,000, and they took out a mortgage for \$4,600,000—I shall not read all of them, but I am going to find out about the pattern, here, which seems to have been very much the same all over the country.

At the time you bought these mortgages, if the law stated that when the projects were finished they could get 90 percent of the actual cost, they figured up the actual cost, would that have been the proper way to do it?

Mr. JEWETT. It would have been much more pleasing to the lender,

Mr. CHAIRMAN. The gentleman before you referred to the economic

How do you think the FHA appraisers on this project here made a \$250,000 mistake on a \$20 million project? That is a 25-percent mistake.

Mr. JEWETT. I haven't seen the figures. It seems quite high.

The CHAIRMAN. You didn't inquire and find out about figures on this project?

Mr. JEWETT. No, sir; we did not. We bought those completed projects.

The CHAIRMAN. You went out and looked at the project?

Mr. JEWETT. Yes; we looked at them.

The CHAIRMAN. And you made certain that the FHA had anteed them or had approved them?

Mr. JEWETT. We did, however, know the cubic contents of the buildings and the cost per square foot—not the cost per square foot of the estimated value per square foot, which seemed to be in line with other projects in this general area.

The CHAIRMAN. You didn't ask the corporation, or the stockholders of the corporation, to guarantee anything at all?

Mr. JEWETT. No, sir. We were looking at that piece of real estate.

The CHAIRMAN. You would have been if the Federal Government hadn't been guaranteeing it?

Mr. JEWETT. We would have made the loan without the Government guarantee. The amount would have been less. I believe we have made any loans that we would not take on a collateral basis, except as to the amount.

Senator LEHMAN. Did you make any appraisal at all of the properties?

Mr. JEWETT. An economic appraisal.

Senator LEHMAN. What do you mean by that?

Mr. JEWETT. The estimated income less the expenses.

Senator LEHMAN. No; I mean the value of the property.

Mr. JEWETT. Of the cost of the construction? No.

Senator LEHMAN. The cost or replacement value.

Mr. JEWETT. No. We knew what the total valuation was per square foot of construction in place, which as I stated a second ago seemed to be in line with general costs in the area, as evidenced by other projects.

Senator LEHMAN. How long after the completion of these projects did you take a mortgage or give a mortgage?

Mr. JEWETT. Immediately upon completion.

Senator LEHMAN. Were the buildings occupied at that time?

Mr. JEWETT. Yes.

Senator LEHMAN. Did you base your valuation—which was obviously a pretty informal, sketchy valuation—did you base that upon the possible increment that had come through the completion of the building, over and above the cost of the unimproved property plus the cost of the improvement?

Mr. JEWETT. No. We were working on economics in that particular instance. There was sufficient money in sight over quite a number of years to take care of that circumstance.

The CHAIRMAN. We have, of course, in the proposed law under the present law, some titles that are possibly susceptible to the same sort of situations as this. We are trying to find ways and means of dealing with this new law that will stop this sort of thing. It never was the intention—I don't think it was; I wasn't here when this law was originally passed, which was back in 1940, I think, but I don't think it was the original intention of Congress that the Government, for example—to that one project there where they immediately took

Carriage & Prof

Year	Month	Amount
1872	Jan	12.00
1872	Feb	15.00
1872	Mar	12.00
1872	Apr	10.00
1872	May	13.00
1872	Jun	12.00
1872	Jul	13.75
1872	Aug	12.00
1872	Sep	16.00
1872	Oct	12.00
1872	Nov	12.00
1872	Dec	12.00
1872	Jan	12.00
1872	Feb	12.00
1872	Mar	12.00
1872	Apr	12.00
1872	May	12.00
1872	Jun	12.00
1872	Jul	12.00
1872	Aug	12.00
1872	Sep	12.00
1872	Oct	12.00
1872	Nov	12.00
1872	Dec	12.00

Mr. VIESER. They represent about 98 percent of all the assets of American life insurance companies.

Senator BUSH. Do you have any estimate of the amount of mortgages held by members of those associations?

Mr. VIESER. We have and we put that into testimony, here, seven weeks ago. We said at that time that the life-insurance companies, at the end of 1953, held 20 percent of the total outstanding mortgage debt on 1 to 4 family residences. Their holdings were \$6 billion in FHA mortgages, \$3.6 billion in VA, a total of \$9.6 billion in Government guaranteed and insured mortgages.

Senator BUSH. You have nearly \$10 billion in those categories.

Mr. VIESER. \$10 billion in the insured categories.

Senator BUSH. You represent the holders of some \$20 billion of mortgages.

Mr. VIESER. That's right. At the end of 1953 the life-insurance companies held residential mortgage holdings at the rate of \$1 billion.

Senator BUSH. That would raise the total to \$27 billion, then.

Mr. VIESER. The \$17 billion is the total on residential mortgages including the \$9.6 billion in Government guaranteed and insured mortgages.

Senator BUSH. It is something in the order of \$17 billion.

I mention that because I want the record to show your authority in talking about mortgages. You say you have historically opposed FNMA mortgages?

Mr. VIESER. Yes.

Senator BUSH. Do you feel, at the present time, it would be well to abolish it?

Mr. VIESER. We are in favor of the liquidation of FNMA. We feel that with flexible interest rates there is a definite market for every sound mortgage. There is only one possible excuse for FNMA, and that is to provide mortgage money to remote areas and for any minority groups. We believe that private enterprise, the lenders of the country, should be given an opportunity to work that out, and we presented a proposal here several weeks ago to this committee, called the voluntary home mortgage credit program. Legislation has been introduced to effect this proposal. We feel the private way is the better way.

Senator BUSH. Thank you very much.

Senator LEHMAN. Your testimony on page 3 isn't entirely clear to me. You say here—

We would respectfully suggest that your committee carefully consider a provision that as the construction of a project advances, but if a group of single-family residences or a multifamily residence, the builder must submit an audited cost estimate or an affidavit of actual cost. In no case should the loan exceed a stipulated percentage of the actual cost. While this procedure would not be a cure-all, it would go a long way to eliminate the alleged abuses,

and so forth, and then you go on in the next paragraph to say :

It should be emphasized, however, that cost alone is not the sole factor which determines the value of a project. The economic value of a housing project is determined by a projection of the income which may be expected over a period of years.

In other words, in the first part of your testimony which I have read, you recommend that the mortgage be limited to a percentage of the actual cost.

Mr. VIESER. That is so.

Senator LEHMAN. In the second paragraph it seems you contradict that.

Mr. VIESER. We don't mean to do so. We feel, for instance, in connection with a 90-percent loan, the loan should not exceed 90 percent of audited costs. However, we should not predicate value on cost alone. You have asked previous witnesses for this clarification.

The CHAIRMAN. Will you yield there just a minute?

Mr. VIESER. Yes, sir.

The CHAIRMAN. I agree with you, but don't you think that even though there are other values that make the property worth much more than the cost, that the additional cost ought to remain in the corporation?

Mr. VIESER. That is right, the loan should not exceed that amount.

The CHAIRMAN. And remain there as security against the payment of the mortgage; don't you agree with that?

Mr. VIESER. Or reduce the mortgage.

The CHAIRMAN. You will agree with that, won't you?

Mr. VIESER. Yes, sir; we do.

The CHAIRMAN. That has been my position here for the last 4 or 5 days.

Mr. VIESER. In the second paragraph, however, we don't want to limit the appraisal entirely to cost.

The CHAIRMAN. I said a minute ago to the witness ahead of you that that position made a lot of sense. I could well see it and understand it. But we shouldn't let the corporation take the money and dividends and run away with them until such time as the mortgage is paid off which the Federal Government is guaranteeing. That is my position.

Mr. MEREDITH. You might have a case in which the cost would be greater than the economic value.

The CHAIRMAN. Will you excuse me just a minute? I want to put something in the record. I have to go and Senator Bricker will reside, and you can go along as long as you care to.

This is the third list furnished us today, a supplemental list of dealers subject to provisions of regulation 8, section 2, I believe it is—and that is a nice way of talking about the list of dealers who have been blacklisted by FHA.

Mr. Greene calls our attention to the fact that you must keep in mind with regard to all these lists, the 2 that have gone into the record previously today and this 1, that these dealers who have been blacklisted, some of them may have been reinstated when they made restitution and corrected their mistakes, so we want the record to show that some of them may have been reinstated. But this is the best list and it goes up between December 1 through April 21 of this year. (See appendix, p. 1905.)

The CHAIRMAN. To show how widespread this violation of title I is, look at this. Here are nine full pages of dealers who have been denied the right to use FHA insurance for some violation of the law or regulation, since December 1.

Senator LEHMAN. Who prepared this list?

The CHAIRMAN. The FHA itself.

Senator LEHMAN. Did the FHA give these dealers who are now being blacklisted a hearing?

The CHAIRMAN. I cannot answer that.

Senator LEHMAN. I wonder whether—I don't want to get this into a McCarthy form of hearing where we bring in names without any specific proof of the allegations that have been made.

The CHAIRMAN. Let me say this, if you will remember when the Senator was present this morning, the witness wanted a supplemental list, because the minute a dealer is placed on the blacklist, every one of the some 8,000 bankers in the United States who are certified to make loans is notified. The list is sent to the 8,000 bankers, so there is nothing secret about it, it is public property.

Senator LEHMAN. You get a list of the dealers that have been blacklisted?

Mr. JEWETT. Insurance companies would not.

Mr. VIESER. We don't get them.

Senator LEHMAN. Mr. Chairman, I want to make it clear, if these lists are already a matter of public record I have no objection to including them in our record, but unless they are, I think we should give some thought to it.

The CHAIRMAN. Let me say this: We have placed in the record today, three lists of dealers who have been blacklisted by the FHA for some reason. As fast as the FHA blacklists a dealer they immediately sent the name to every banker in the United States who is authorized to insure title I loans and the list is made public, it is published and there isn't anything secret about it at all.

What we are doing here today is not making anything public that isn't already public. It is amazing to me that here is, as I say, nine full pages since last December 1.

Here is the law—it is a regulation which has the effect of law. We are a Nation, now, that is being run by regulations that have the effect of law, which I have been objecting to for 10 years since I have been in the Senate.

If the insured has not approved the dealer as provided in section I (a) of this regulation or has reason to withdraw such approval the proceeds of the loan shall not be dispersed until the insured has verified all statements contained in—

and so on and so forth. I'll not read the other, but that is the section, and these three lists we have put in today come under that category and there is nothing secret about it at all.

We had a witness here this morning who had a later list than we put in the record. He had it in his pocket. He was from a savings bank, I think, in New York City. He testified that they received these lists—I don't know whether he said every day or not. Mr. Greene is here. How often do you get the lists out, Mr. Greene?

Mr. GREENE. I beg your pardon.

The CHAIRMAN. You don't refer to these people as being blacklisted, how do you refer to it?

Mr. GREENE. It is a precautionary list. When a condition is found in the territory of a local office, the State director finds that out generally first, calls the builder in and faces him with the facts.

The CHAIRMAN. Do you mean the dealer?

Mr. GREENE. The dealer. And if the difficulty is not corrected by the efforts of the local director, he will report it to the home office and suggest that that dealer be put on the precautionary list.

The **CHAIRMAN.** Which means that bankers are not to take any of his paper, is that it?

Mr. GREENE. No, they can take it and it can be insured but they are required to make extra examination through the transaction.

Senator **LEHMAN.** Would you repeat that, Mr. Greene, I didn't hear that.

Mr. GREENE. They may take the paper even though the man is on the precautionary list but they are required to make a further examination as to the work being done, the cost of it, and whether or not it meets all of our requirements.

The **CHAIRMAN.** In other words, these people are under suspicion, is that it?

Mr. GREENE. The effect of it though, Senator, I must say, when they are on the precautionary list, the banks do not make loans for them until they have cleaned it up.

The **CHAIRMAN.** You issue these lists how often?

Mr. GREENE. No special time, I don't believe.

The **CHAIRMAN.** They are public property?

Mr. GREENE. We send them to everyone who is interested in making the title loans. That is title lending institutions.

The **CHAIRMAN.** They go to all the banks that are approved?

Mr. GREENE. That is right.

Senator **LEHMAN.** Mr. Chairman, would it be agreeable to you that when you place these in the record, instead of designating these dealers as having been blacklisted, you designate the records which you are placing now in our records as "List of dealers subject to the provisions of regulation VIII, section 2."

The **CHAIRMAN.** I did that when I put them in the record.

Senator **LEHMAN.** I think the term "black list" was used, not only now but on some other occasions.

The **CHAIRMAN.** They were so referred to by some of the witnesses.

Senator **LEHMAN.** I imagine these are a lot of little fellows working in small towns, as I look over the list, and I just don't want to take away the livelihood of these people by damning them unless they have had an opportunity to be heard.

The **CHAIRMAN.** I think you are 100 percent right except the Federal Housing Authority has seen fit to put them on the list as undesirable and warned all the bankers in the United States to be cautious of them and check their transactions exceptionally carefully. I think under those circumstances this committee ought to know about it. We certainly ought to know about it. We certainly don't want to do any harm to anybody.

Senator **LEHMAN.** Since they are a matter of public property and have been circulated by the FHA, I withdraw my objection with the understanding that we do not characterize these people as being on a blacklist, due to a certain provision in the law.

The **CHAIRMAN.** What else is that? It is a precautionary list, or a blacklist.

Senator **BRICKER.** Perhaps it should be termed a "gray list."

The **CHAIRMAN.** I don't know how the term "blacklist" got in.

Senator LEHMAN. May I continue my questions? I am still not very clear on this. I agree and I have so stated on a number of occasions during these hearings that there should be a very definite relationship between the actual cost of a project and the mortgage that is issued. However, I still believe that the language of your second paragraph, while it may not describe your own feeling or your own views, does contradict the paragraph above it. You say, "The economic value of a house—it should be emphasized, however, that cost alone is not the sole factor which determines the value of a project. The economic value of a housing project is determined by a projection of the income which may be expected over a period of years. Good mortgage lending dictates reconciliation of economic value and actual cost."

In reading that, I think, without an explanation, it would lead me to believe that you would superimpose upon the percentage allowable—percentage of the ratio between a cost, the cost factor, and a mortgage—there would be superimposed another factor, due to the rental value of these properties.

Mr. VIESER. I would like to clarify that and say that we believe that the mortgage should not exceed the stipulated percentage of cost, in that we are in agreement on audited costs. We say, however, we should not consider cost as value alone but you should consider economic value and we will go a step further at this point and say if the economic value is lower than cost, then it should be a stipulated percentage of the economic value.

I would like to give an extreme case: You have a cost of \$1 million. It may have an economic value of \$1 million and a half, but the mortgage should not exceed 90 percent of that million dollars cost. However, let us take an extreme case which probably could not occur, and we construct a property at a \$1 million cost in the center of a desert in Arizona. It would have no economic value. The economic value there might be as low as \$100,000. Certainly we would not predicate a loan of 90 percent of that million dollars cost, because it would be economically unsound and therefore if the economic value, because of these extraneous conditions, is lower than the cost, you should not exceed the economic value.

Senator LEHMAN. Do you know of any substantial number of projects in which the cost actually exceeded the mortgages?

Mr. VIESER. I know of no such cases myself, Senator.

Senator LEHMAN. Some of the witnesses have testified that there are a considerable number of cases of that sort.

Senator BRICKER. If there are no further questions, we thank you very much.

There will be a meeting tomorrow morning at 10 o'clock. The witness will be Mr. Warren Olney, Assistant Attorney General in charge of the Criminal Division; also Mr. Walter L. Greene, Deputy Commissioner, now retired, Federal Housing Administration; Le Grand W. Perce, Deputy Assistant Commissioner, Federal Housing Administration; Norman P. Mason, Acting Commissioner, Federal Housing Administration, and also Mr. Hollyday has asked to make a statement at this time which he will be permitted to do if he so desires.

We will recess until tomorrow morning.

(Whereupon, at 3:05 p. m., the hearing recessed to reconvene at 10 a. m., Friday, April 23, 1954.)

HOUSING ACT OF 1954

FHA Insurance Provisions

FRIDAY, APRIL 23, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10:05 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Payne, Goldwater, Frear, and Lehman.

The CHAIRMAN. The committee will come to order.

Our first witness will be Mr. Warren Olney, Assistant Attorney General in charge of the Criminal Division, Department of Justice.

Mr. Olney, will you be sworn? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF WARREN OLNEY, ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION, DEPARTMENT OF JUSTICE

Mr. OLNEY. I do.

The CHAIRMAN. You may be seated. Do you have a prepared statement, Mr. Olney?

Mr. OLNEY. I have some prepared notes, Senator.

The CHAIRMAN. Then why don't you just proceed in your own way and possibly we will ask questions as you go along, if you don't mind.

Mr. OLNEY. Beginning on last Monday, this committee has been making public inquiry into the manner in which the Federal Housing Administration has been conducting public business during the past decade or more.

The testimony already taken has demonstrated that FHA, beginning with the close of World War II, has fostered a home improvement program, the so-called title I program, which rapidly became a means for organized groups and swindlers, thieves and crooked salesmen to cheat and defraud literally thousands of small-home owners.

The testimony has also shown that during the same period, FHA also fostered a rental construction program, the so-called section 608 program, which has enabled unscrupulous promoters to pocket, at the expense of the public, hundreds of millions of dollars in the form of windfall profits.

Although both these programs were developed by FHA under laws enacted by Congress, it is perfectly apparent that the results were never intended by Congress. The testimony taken before this committee has also shown that as soon as the perverted results of these

two FHA programs were called to the attention of the Executive President Eisenhower took immediate, drastic administrative action to correct the condition.

The development of this picture before the committee leads, naturally, to the question of the extent to which the criminal laws may have been violated and whether it is reasonable to expect that the deplorable conditions which have been revealed can be remedied by criminal prosecutions.

I am grateful to the committee for this opportunity to appear on behalf of the Department of Justice to discuss the criminal aspects of this matter, as we see them. I intend to discuss, this morning, principally the criminal aspects of both title I and section 608 programs, discussing the techniques that appear to have been in general use in each, and the several criminal statutes that might possibly be applicable.

I shall also relate something of what the Department of Justice has already done in connection with this problem, and what it is in process of doing.

I am sure the committee will bear in mind that my treatment of this problem will not extend beyond its criminal aspects, and I make no attempt to discuss any of the broad and important economic considerations that are basic in the FHA concept.

Addressing myself to the criminal aspects of the title I program, I want to begin, first, by enumerating some of the possible, applicable criminal laws that might be applied to the transactions conducted under title I. There is, first, section 1001, title 18, which is the general section of the Criminal Code, which makes it an offense to make false statements and file false statements with Government agencies.

There is also a specialized section, section 1010 of title 18, which makes it a criminal offense to file false statements with a private lending institution when it is known that those statements are to be utilized in FHA loans.

There, of course, also are the general bribery statutes which might come in those cases where evidence is developed of collusion and participation in some of these transactions on the part of any public official.

There is also available in the legal arsenal, the conspiracy statute. It could be conspiracy to violate section 1010, for example, as a possible means of attack.

Now, it is important to note that in that list of applicable laws there is no Federal law which makes the swindle perpetuated on the homeowner under title I a Federal crime.

There is one other aspect of this matter—

The CHAIRMAN. You say it does not make it a Federal crime?

Mr. OLNEY. It does not. It may be a violation of State law to cheat and defraud the homeowner.

The CHAIRMAN. Is that an oversight or weakness in the law?

Mr. OLNEY. No, sir, it is basic on the jurisdictional difference between the Federal and State Governments.

The CHAIRMAN. There is no way, then, that we can tighten the law to protect against that?

Mr. OLNEY. I doubt that. I doubt that that could be done. Any rate, the law does not now cover it.

There is another aspect of this matter which did exist until recently which is worth taking into consideration, and that is the investigative jurisdictions for offenses of this kind.

The FBI, of course, has general jurisdiction to investigate most Federal offenses, and among these statutes I have enumerated, violations of section 1001, for example, are in FBI jurisdiction. That is, if it is a false statement filed with the Government or with some Government agency, it is a matter which the FBI investigates.

But formerly, until a week or so ago, the jurisdiction to investigate section 1010 was not within FBI jurisdiction, but was investigated by the compliance section of FHA, itself. It is a special statute which was particularly enacted for FHA, and not by law, but by custom, dating way back, as long ago as 1935.

The CHAIRMAN. It isn't quite clear to me what you mean. Do you mean FHA did their own investigating, rather than the FBI?

Mr. OLNEY. That is right.

The CHAIRMAN. And for what reason, will you state again, please?

Mr. OLNEY. That is not founded on statute, but was established by custom as long ago as 1935.

The CHAIRMAN. Do you mean when the FHA law was enacted?

Mr. OLNEY. That is right.

The purpose of it is to prevent interference by one investigative agency with another, and to avoid the complications of overlapping jurisdiction and the like.

The CHAIRMAN. Are you saying, then, up until recently that FHA had complete 100-percent responsibility for their own compliance?

Mr. OLNEY. They had, I would say, 99 percent of the responsibility. They had the responsibility to investigate violations of section 1010.

Now, for example, Senator, when, as occasionally happens, a defrauded homeowner would complain to the United States attorney or to the FBI, that complaint would not be investigated by the FBI but would be referred by the FBI to FHA for investigation by their Compliance Division.

There has been a continual reference of the complaints involved in title I by defrauded homeowners, by the FBI to FHA.

The CHAIRMAN. Do you have any knowledge or records in the Department of Justice as to whether the FHA did or did not take action and investigate?

Mr. OLNEY. Yes; we do, of course. We have in the Department files the record, beginning in 1935, under which the understanding was reached between the Department of Justice on the one hand, and FHA on the other, as to this line of demarcation.

The CHAIRMAN. 1935?

Mr. OLNEY. That is when it began.

The CHAIRMAN. And it carried through up until recently?

Mr. OLNEY. That is until Monday of this week.

The CHAIRMAN. Until Monday of this week?

Mr. OLNEY. That is right. I think that was the date. At any rate, that was the date the President took action on this thing.

The CHAIRMAN. Up until the day the President took action?

Mr. OLNEY. Yes.

The CHAIRMAN. Do you have any idea of how many hundreds or thousands or whatever it is, of complaints and violations have been

handled or turned in or uncovered? Any record of it at all, or any idea?

Mr. OLNEY. We have no idea of the total number. We know that it runs into thousands. As I will proceed to relate when I get to the techniques that have been used, the techniques themselves—

The CHAIRMAN. When you say "thousands," you mean from the date of the law starting back in 1935?

Mr. OLNEY. It would be a great many thousands starting then. I would say it would be thousands in a year.

The CHAIRMAN. Thousands a year?

Mr. OLNEY. A year, of these things, at least. But, as you will see, one of the techniques that is used is to involve the victim in some kind of illegal action, himself, which cuts down the number of complaints very materially. It is one of the oldest tricks in the bunko racket, and it has been used very extensively here.

The CHAIRMAN. You are going to describe it to us?

Mr. OLNEY. Yes; I am.

The CHAIRMAN. Thank you.

Mr. OLNEY. I wanted to mention these statutes, and how these matters have been investigated in the past.

The CHAIRMAN. Let me review that again because I think you are touching on something we are going to have to give some consideration to in this committee in writing this new law.

You say that up until the day the President took action, which was a week ago, I think, last Monday, that by an arrangement between the Department of Justice and FHA, FHA handled all their own compliance cases and the Department of Justice and the FBI didn't touch any of them?

Mr. OLNEY. The FBI did not, Senator. The Department of Justice prosecutes them all through the Criminal Division.

The CHAIRMAN. Prosecuted them when FHA asked you to do so?

Mr. OLNEY. That is right.

The CHAIRMAN. But FBI had nothing to do with them at all, under this arrangement.

Mr. OLNEY. No, sir.

The CHAIRMAN. And did you say you did or did not think that we can correct the law to permit FBI to handle them instead of FHA?

Mr. OLNEY. Senator, the correction has already been made. It doesn't take the law.

The CHAIRMAN. The correction was made by Executive order; is that right?

Mr. OLNEY. That is right. Mr. Cole wrote a letter requesting that the FBI assume that jurisdiction and the Attorney General directed them to do so, and as of this time, the FBI does assume jurisdiction to investigate section 1010, as well as section 1001, and any other case that involves fraud against the United States in any of these agencies.

The CHAIRMAN. Would you know why FHA officials over the years, knowing there were thousands of these cases each year as you have just testified, would permit that situation to exist? What was the purpose? They have testified here that they didn't have enough people to do it. If they didn't have sufficient people to do it, then why didn't they ask the FBI to do it?

Mr. OLNEY. When this arrangement was first set up, there were no such numbers of cases as we have had in later years. I am satisfied

that. It was not an arrangement arrived at in the face of this condition. Rather, the condition may have resulted in some part from the exclusion of an adequate investigating force from this field.

The CHAIRMAN. In other words, it may have built up because these people knew there was no method of catching them; is that what you are saying?

Mr. OLNEY. Well, I think that had a great deal to do with it; yes.

The CHAIRMAN. You are going to give us the pattern of how they do it?

Mr. OLNEY. Yes; I am. The techniques that have been used under this statute. This requires some discussion of the details of transactions under title I.

Under the provisions of title I, section 2, of the National Housing Act, the Federal Housing Administrator was authorized to insure approved lending institutions against loss which they may sustain as a result of loans or advances of credit made by them for the purpose of financing the cost of repairing and modernizing homes, commercial and industrial property.

The original section of the act has been subsequently reenacted and amended. It was a part of the plan to assist in the general improvement of the economic factor of the country which reached a low ebb in the 1930's. In its early life it was destined to afford employment in the construction and modernization industry.

In the post-World War II years the plan contributed to the relief of the housing shortage by the conversion and modernization of substandard and limited capacity housing but it should be noted that from the inception of the program through April 1953, over \$6 billion in loans were insured by FHA under the authority of title I, section 2. Now, the regulations promulgated under the act provided for insurance, under FHA, of the lending institutions against losses they might incur on loans made in conformance with the regulations, up to 10 percent of the aggregate net amount advanced by the insured institution.

The FHA on this plan, and according to its regulations, insures the lending institutions and not the loan. That is of some importance because it relates to where the documents, if there are false documents if they are filed, may be filed.

The CHAIRMAN. Now, say that again. It insures the lending institution—

Mr. OLNEY. It insures the lending institution and not the loan.

The CHAIRMAN. In other words, it insures the bank and not the specific loan?

Mr. OLNEY. That is right.

Now, the regulations specify the type of improvement for which the loans may be used and they set forth precautionary rules for the lending institutions, guidance in granting loans, and purchasing obligations. The lending institutions must be FHA approved and the holder of the contract of insurance with the FHA. The contracts are entered automatically to certain institutions such as members of the Federal Reserve System and banks insured by the FDIC, and so forth. Other lending institutions may qualify by application. The contract may be terminated on short notice—5 days—if the institution among other things is not exercising proper judgment or not exercising normal care in selecting those from whom it purchases paper.

According to the advice of qualified lending institutions, the rate of losses over the years has been low enough to be effectively covered by the authorized insurance reserve.

Now, those things are important, because it shows the actual control which FHA has always had over the lending institutions. They can crack down on them and shut off undesirable practices any time they want to do so.

Concern has arisen principally in this field in the purchase of paper from dealers by authorized lending institutions.

The difficulty has not arisen primarily with the case of the homeowner who goes himself, in person, to a bank or loaning institution and makes his own arrangements for the loan.

The CHAIRMAN. You say that has not been the trouble where the individual made his own loan, and made his own deals?

Mr. OLNEY. No, sir. The trouble has been almost entirely with those dealers who make the deal with the homeowner and bring the paper to the lending institution and get money for the paper there.

The CHAIRMAN. In other words, where the dealer enters the home and makes the arrangement and then takes the paper to the bank and handles the whole business.

Mr. OLNEY. Yes.

The CHAIRMAN. Where the homeowner, of his own accord, goes to the bank, borrows the money and proceeds to spend it with whom-ever he cares to, and on what basis, that is the least of the problems, is that it?

Mr. OLNEY. Yes. I think in those respects the program has worked without fraud.

The CHAIRMAN. That is based upon the thousands or hundreds of cases that the Department of Justice has handled. Is that your basis for that statement?

Mr. OLNEY. Yes, sir. The basis for that statement is, Senator, we have not had one single criminal complaint involving fraud, to my knowledge, where the homeowner himself went direct to the institution and made his own loan.

The CHAIRMAN. That is the basis for your statement?

Mr. OLNEY. That is right. We have had a great many complaints about these deals.

Mr. Cossack, my assistant, tells me that I am mistaken in making such a categorical statement, that there have been a few cases for homeowners, but certainly they are negligible in comparison with the number of complaints that have arisen from dealers.

Senator LEHMAN. When you talk about the arrangements being made directly by the homeowner with the bank, I assume you do not refer to direct loans by the banks but loans made under title II?

Mr. OLNEY. Yes; that is what I am referring to.

Senator LEHMAN. You say that in many complaints of fraud in connection with loans made in negotiations between the dealer and the banks, do those complaints of fraud relate also to any banks?

Mr. OLNEY. They relate primarily to the dealers, Senator, but in later years there has been an increasing number of complaints and rumors that officials in the banks were themselves involved in some of these frauds. There have been rumors, for example, that the FHA man in certain lending institutions was getting \$50 from one of these dealers for every one of those deals he approved.

There have been at least 1 or 2 instances in which that fact has been ascertained. However, there is more rumor and less fact connected with that.

Senator LEHMAN. When you get those complaints—which are not sufficiently developed for the Justice Department to take action, itself—do you report the matter to the superintendent of banking of the State in which the fraud is alleged to have taken place, or to the Federal Reserve Board in the event it is a Federal bank?

Mr. OLNEY. Senator these things have usually come to our attention after action has already been taken by some other appropriate agency. Sometimes the bank has gotten onto the fact, itself, and has fired a man. Sometimes there have been local prosecutions for fraud, in which the bank man may have been named as a party.

That is the way in which we have usually learned of these things. To continue, the liberality of the regulations very early in the program invited abuses by unscrupulous buyers and dealers. The incentive to curb these abuses was somewhat diminished by the insurance provision and the low loss rate, as well as the absence of regulations requiring investigation into the transactions.

After World War II, shortage of materials, as well as the need for more adequate housing and improvement of the existing dwellings, brought on the scene an army of unscrupulous dealers and salesmen to take advantage of the soft pickings.

The CHAIRMAN. That was right after the war?

Mr. OLNEY. Yes; it was.

Now, large numbers of so-called dealers in roofing and siding and their salesmen through deceitful ruses obtained modernization contracts to be financed by title I loans. Subsequently, the field was extended to fire-detection devices, water softeners, furnaces, house painting, garbage disposals, patios, house insulation, venetian blinds, and even barbecue pits.

Along with the avarice dealers there arose a band of high-powered salesmen replete with Cadillacs and fancy dress, often operating as independent contractors and known in the profession as dynamiters, because of their high-pressure sales ability, or suede-shoe business because of their fancy dress.

Although this appears that shady dealers were responsible to a large degree for the corrupt practices in this field, the work of these dynamiters is spectacular and most effective in the field of selling shoddy and incomplete jobs at exorbitant prices through deceit. These dynamiters operate with invasion tactics. They have advance men or canvassers who proceed to search out likely prospects and soften them up for sale. The advance man introduced the dynamiters as our vice president from Chicago, or other equally high-sounding terms. The dynamiter approaches, usually fronted by his Cadillac, with smooth manner and expensive dress. He is a master of persistency and cajolery and the victim finds that he has signed a contract and note and often a completion certificate for a modernization job at excessively high prices even before the job is started.

Senator FREAR. Do you mind being interrupted as you go along?

Mr. OLNEY. No, not at all, sir.

Senator FREAR. Is this last reference you have been talking about strictly title I.

Mr. OLNEY. This is title I, strictly.

Senator FREAR. In 1946 or 1947, immediately after the conclusion of the war, in a statement just a short while ago, I believe, you said that these highjackers or dynamiters went out selling people on the idea that they should remodel and mostly those who were guilty were the dealers in siding and roofing and so forth.

Was there an ample supply of those materials that necessitated these people going out and doing that? It seems to me there was a shortage of materials about that time.

Mr. OLNEY. Well, I think there was a shortage of materials at that time, and I don't believe that these people were in that field to fill any economic need. They were in there because, as swindlers and high binders, they discovered a soft place.

Senator FREAR. In other words, I suppose in getting \$100 a thousand for siding, through this means they could get \$200.

Mr. OLNEY. Oh, yes, they sold for 2 or 3 times what it cost.

Senator FREAR. Then it was a matter of getting more for the product through that means than they could through the ordinary sales channel?

Mr. OLNEY. Exactly. The competition of these racketeers has been almost ruinous to legitimate dealers. They have great cause to complain that they have been subjected to this type of racketeering and competition.

Senator FREAR. Was this pretty universal or were these highjackers centralized?

Mr. OLNEY. It is surprisingly widespread. As I intended to relate, later, we first became aware of this on the west coast and thought that it might be local, and had a survey made which showed that it is not confined to any one or a few even, of the FHA regions, but it has been widespread in nearly all parts of the country.

Senator FREAR. Did you first become aware of it about that time, 1946 or 1947?

Mr. OLNEY. No, sir, I did not become aware of the thing until late in the spring of last year.

Senator FREAR. When did FHA become aware of it?

Mr. OLNEY. That would be very hard to say, but it seems to me incredible that the FHA—take the FHA Director of title I, that he did not know of this from the beginning.

Senator FREAR. In other words, you think he did?

Mr. OLNEY. It seems almost unbelievable to me that he could not have. I can't say that he did.

Senator FREAR. If he knew about it, why was it permitted to go on?

Mr. OLNEY. He must have known about it or he should have known about it.

The CHAIRMAN. You say it has been going on for years?

Mr. OLNEY. Indeed it has.

Senator FREAR. I think I asked the question—I am sure you didn't try to avoid it—if he knew about it, why didn't he stop it?

Mr. OLNEY. Well, Senator, of course, I can only speculate as to the motivation there, but I can say this about the kind of reasoning that we have heard from FHA officials on this program. They take the position that they are not a public-service agency. They take the position that they are a lending agency. They think of themselves as a bank. They frequently describe themselves as being in partnership with the promoter and with the contractor and with the

lending institution. They conceive that they have no responsibility for the victim of these swindles; they think that so long as the papers are regular on their face, so long as there is no resulting loss to the Government, that they can wash their hands of all responsibility for what has been going on.

Senator FREAR. Do you think that they help to stimulate the flow of these "highjackers" into the public market?

Mr. OLNEY. Unquestionably the program did. The whole thing couldn't have been done without the program.

The CHAIRMAN. I would like to say I think the witness testified before you came in, Senator Frear—you and Senator Lehman and possibly Senator Payne—that up until Monday when the President took action, the understanding between FHA and the Department of Justice and FBI was that FHA was to do all its own policing. That the FBI had no jurisdiction, or at least did nothing about it up until that time, and that condition existed from the beginning of the law back in January 1935 up until 2 weeks ago next Monday.

Did I properly state your position?

Mr. OLNEY. Yes, sir.

Now, I want to say this about the efforts that FHA did take. They did go through some motions that looked like a cure for this condition.

For example, they had what they called a precautionary list that was intended to be a blacklist. "Hot" salesmen, bad companies, and things of that sort would get on that list.

The CHAIRMAN. They would send that out to the banks?

Mr. OLNEY. That would go to the lending institutions.

The CHAIRMAN. That is the list we put in the record here, on yesterday.

Mr. OLNEY. That is supposed to be a warning. But the thing is just as simple to circumvent as can be. All the salesman had to do was to change the name under which he operates, and they did that regularly and systematically. Some of them made arrangements so that they would change their names every 10 days or every 2 weeks, something of that sort, under which these deals were handled.

The CHAIRMAN. This is still title I you are talking about?

Mr. OLNEY. This is still title I.

The CHAIRMAN. Furthermore, there have been notorious companies that did not get on the precautionary list, and no one explained why they did not. There is one company out on the west coast which is presently under investigation. One of the worst in the country, in the field. For a long period it did not get on the precautionary list—notwithstanding that the San Diego office of FHA had recommended they be put on the list. So that the list, although it exists, has never been effective in controlling this.

Senator FREAR. It would be impossible to keep it up to date according to what you have said.

Mr. OLNEY. Well, it virtually is.

Senator FREAR. Did the FHA submit to the Department of Justice any violation—in other words, Senator Capehart has just said that up until 2 weeks ago or whenever the notice was made, that the policing was all done by FHA—did they at any time submit to the Department of Justice violations that occurred under title I?

Mr. OLNEY. Yes; they did. Some.

The CHAIRMAN. Would they submit them to you only when they were ready to prosecute, was that it, when they wanted them prosecuted?

Mr. OLNEY. That is right.

The CHAIRMAN. Because under the law you do all the prosecution for FHA?

Mr. OLNEY. That is right.

The CHAIRMAN. They do all the investigation and their own policing, but you do the prosecution?

Mr. OLNEY. That is correct.

But let me explain the kind of violation that occurs and that was submitted. The FHA jurisdiction is on this section 1010, which involves—makes it a criminal offense to submit false statements to a private lending institution when they know it is going to be used to get FHA insurance. That is the gist of the thing.

There were very few cases of that kind submitted by FHA, because there were very few complaints made to the Federal Government about it, for this reason, that to come under that section there has to be some kind of a document—maybe the application, maybe the statement that there has been a downpayment on the loan, or the certificate of completion or some other statement, which is false. Now, those statements are almost invariably signed by the victim. The bunko man comes in, he sells them a bill of goods on this thing, he gets them to make out papers. Deliberately they will have him represent in the application that a downpayment has been made when it has not. And it is the victim who signs that thing, so that when it comes to spelling out who is guilty of a criminal offense under the 1010 section you start off with the sucker, himself, as being the fellow who violated the law by signing the statement which was filed that is alleged to be false. So with that kind of thing very obviously you don't get very many people who come in and complain.

I want to say that this has developed, too, in these cases: These bunko men are well aware of the vulnerability of the people who they have swindled and where there are complaints made and the victim gets restless, there has been case after case of threats that they will have the victim prosecuted, that they will only be getting themselves into trouble, pointing out the false statement that the victim himself signed on the thing, and complaints have been kept to almost a minimum for that reason.

And one of the reasons that the Department of Justice didn't catch onto this thing sooner, and that those of us who were new there did not become aware of this quickly is because of the small number of complaints the Federal agencies get. But if you go to the State governments, the police, and the better business bureaus, there are just stacks of complaints by poor people who have been swindled on this deal.

Senator FREAR. Has this come through rules and regulations of the FHA—what I am trying to secure there is this, were we lax here in writing the FHA law? Should we have been more restrictive not only in title I loans but in other loans where insurance is guaranteed by the Government? Most of this has been done, or not, through rules and regulations of the FHA.

Mr. OLNEY. Yes, sir; most of it has been done through rules and regulations. The statutes are very general and very broad. It is a bare statute. It is a great grant of authority and it is supposed to be administered under the regulations that are set up by FHA itself.

Senator FREAR. We have had testimony, as you perhaps know, before this committee—witnesses since we have started here—stating that they would recommend no change in the law.

Mr. OLNEY. Well, I think you are getting me beyond what is really the field where I am competent to speak.

Now, it depends upon what the objectives of the law are. There are certainly very serious abuses that have resulted here. They are, however, abuses that could be corrected within the present law, if we had an administrative agency that had any sense of responsibility toward the victims of these swindles. They could perfectly well control the thing under the present law.

The CHAIRMAN. You say if we had administrative officials that had responsibility toward the victims?

Mr. OLNEY. Yes.

The CHAIRMAN. In other words, in your conferences with these FHA officials—how long have you been in this position?

Mr. OLNEY. Only since February 1953.

The CHAIRMAN. And, of course, prior to that time, back to 1935, you would have to call the gentleman who was in charge of the same department you are now in charge of to get what happened during that period. But are you saying in your conferences with FHA officials and those responsible, that they took the attitude that they had responsibility to the victim who was fleeced?

Mr. OLNEY. They have said that in writing, in public, and everywhere else. They don't put it so baldly as that, Senator, but that is at it adds up to.

The CHAIRMAN. Very simply, it is an insurance agency and it is up to somebody else to look after these details?

Mr. OLNEY. Yes. They concede an incidental concern that there are bad people who have gotten in the business. They know it gives them a bad name and a bad odor, and they don't like that, of course, but they have shown no indication of picturing themselves as public servants in the sense that any ordinary Government official pictures himself.

The CHAIRMAN. Is it your thought, then, that every FHA Commissioner, beginning back in 1935, had he cared to take disciplinary action and hit it hard and called it to the attention of the Congress, faced the issue, that he could have eliminated a great majority of it at any time he wanted to?

Mr. OLNEY. I think he could have eliminated it without even going to Congress. Just under their own regulations, by tightening up on lending institutions and making them responsible for the paper, the kind of transactions upon which they accept the paper. The lending institutions were more or less indifferent to it, because the law wouldn't move, no matter how queer the stuff was.

Senator PAYNE. That might have been effective had there been a provision in the law requiring the bank official who negotiated with an individual, to state that this was signed in his presence or at the bank, for instance. You indicated that the great bulk of the cases

were those cases where they did the business, practically, with the dealer, and then the dealer took the paper down to the bank and did the rest of it.

Mr. OLNEY. That is right. What was going on was that these teams of bunko men would come out to a man's house. The whole transaction takes place right there and everything is signed up, there. Then they take the paper down to some lending institution, and some of these lending institutions got very greedy about this stuff, trying to buy this paper. For example, there is a lending institution in Brooklyn that went so far as to go all the way down to Alabama to buy up this title I paper that they had down there.

Senator FREAR. What would be the advantage in their going out and buying that up, if I may ask that question?

Mr. OLNEY. Now, again, I am getting a little off my field, but I am told that the reason lending institutions like this deal is that when you figure out the true rate of interest that is on this thing, it is over 9 percent interest that they get on that title I stuff.

Now, that is an awfully good rate of interest. In fact, at the time this law was enacted, there were serious misgivings about it, and some shock expressed in Congress, as I understand, at the high rate of interest that actually results. There is money in it.

Senator LEHMAN. May I ask a question?

Senator FREAR. I didn't want to get in on Senator Payne's questioning. I am sorry.

Senator LEHMAN. Mr. Olney, under the present law, a loan can be negotiated with the bank, either by the homeowner or by the dealer. That is a fact, is it not?

Mr. OLNEY. Yes, sir.

Senator LEHMAN. You have testified here today that in the case of the homeowners negotiating directly with the bank, there have been few, if any, claims of fraud, whereas in the case of the dealers taking the paper to the bank, there have been a vast number of claims?

Mr. OLNEY. That is right.

Senator LEHMAN. That being the case, don't you think there would be a very good cause for amending the law in that regard, compelling the banks to deal only with the homeowners rather than with the dealers, and in that way eliminate a great percentage of the fraud which you have already outlined?

Mr. OLNEY. I can only say that a statute which would accomplish that result would certainly eliminate the major part of the fraud.

Senator LEHMAN. So that would be a useful amendment to this act?

Mr. OLNEY. I would think so.

Senator LEHMAN. Let me ask you one more question: You testified that the Department of Justice became aware of this situation only quite recently?

Mr. OLNEY. Yes, sir.

Senator LEHMAN. I don't remember whether it was in 1953 or 1952.

Mr. OLNEY. 1952.

Senator LEHMAN. Who brought this to your attention?

Mr. OLNEY. It was not brought as a package problem at all. I have been in close touch with local and State district attorneys and their organizations. My background is in State government, not in the Federal Government. My previous experience in law enforcement was in State government.

I have found that with those that I knew, they were reporting to me, not by way of complaint, but by way of incidental information that they were having an enormous number of swindles in the home improvement field.

Now, they didn't relate that to FHA. They only reported it as a field in which there was a brand new growth of bunko rackets that they were having to contend with. I heard a lot about that.

Then, the first conception that FHA, itself, had played any part in this thing, came to me from articles that came out in the San Francisco newspapers, and information that was brought to me by one of the San Francisco newspaper reporters who had gone into the thing far enough to have some conceptions of what this operation was in that area.

He put me in touch with his sources of information, and it gave a picture of this sort of thing. Now, there was no way for any of us to tell from that how widespread this thing was, whether the condition that seemed to be documented and reported in that area was typical of the country as a whole or not. We couldn't ask FHA to do it.

Their manpower is altogether too small for such a thing, but the thing that was of interest to me was that the hoodlum, the racketeer, the bunko man, these professional fellows who go into the swindling game from one thing to another—first they are in insurance and then they are selling hot oil leases and things of that kind—they have congregated in this home-improvement field. It became a matter of intelligence, of the criminal intelligence, to determine why they were now appearing in that particular field. That was the reason we felt justified in asking FBI to make a survey of what the condition was in this home-improvement field all over the country. We did not ask them to investigate particular cases. We asked them to find out the kind of complaints that were being made, the kind of complaints of swindles and frauds that were being received in district attorneys' offices, in better business bureaus and agencies of that kind that are close to the victims of fraud and swindle.

They conducted a nationwide survey of that kind. It is on the basis of that survey that I am able to describe here in some detail the techniques that have been generally used in this thing.

From that survey, it became plain that this was widespread, that the details of how it was operated became clear and also at the same time it became perfectly apparent that the thing could be shut off if effective action was taken by FHA, without the necessity of the very expensive and laborious process of trying to track down individual bunko men for criminal prosecution.

Senator LEHMAN. Do you recall the date on which you asked the FBI to make that survey?

Mr. OLNEY. It was in July of 1953, sir.

Senator LEHMAN. When did they complete that?

Mr. OLNEY. The reports, of course, came in somewhat piecemeal. It was about September before that survey was completed. And then, of course, what we had was a mass of reports from all over the country that had to be read and analyzed and understood, to get significance out of them.

Senator LEHMAN. Was that report made to you, or the FHA, or both, that report of the survey?

Mr. OLNEY. The Criminal Division only.

Senator LEHMAN. Have you taken any action under that, the Justice Department?

Mr. OLNEY. Yes, sir.

Senator LEHMAN. Have you prosecuted?

Mr. OLNEY. Well, what we did, sir—we prosecuted wherever we could prosecute. We have diligently followed up with criminal action in all cases in which we could. As I want to point out, when I get through describing what these techniques are, you will readily see that there are many of these cases in which there is no applicable Federal law under which we can move. But we have taken other action, as well.

One of the things we have done is to get the investigative jurisdiction transferred, and we are dealing with as many of these cases as we have.

The CHAIRMAN. I think, in all fairness, we should say the banks have a lot of responsibility, as well as FHA, because FHA deals exclusively with the banks, or the lender. They don't know who the dealers are. They don't know who these salesmen are. The only action they could have taken—one of the actions they could have taken, of course, was to cancel the right of these banks to grant such loans, that was handling this sort of paper from this type of salesman that you just described. They didn't seem to take any action.

At this time, without objection, I want to place into the record the list of items or categories of items that the FHA, over a period of years, beginning with the advent of the law in 1935, has approved for financing. I will just read a few of them, which gives you some idea of how these salesmen can operate.

For example, air conditioning. Now, do you think it was ever the intention of this Congress that air conditioning would be a home improvement or a home repair?

Television antennas. Not television or radio, but antennas. Would you call antennas an improvement?

You can go on down here, awnings—I will put this in the record in a minute. The reason it is in the shape that it is, here, is because we cut off the names of the manufacturers over here, for the reason that—the way they have been working this thing, a manufacturer will come in and get his product approved. That is the category. Like the first fellow came in and got air conditioning approved. Well, that doesn't mean that his product is guaranteed exclusively; it means all air conditioning, but his name appeared over here. The first fellow to get television antennas, his name was here, so we cut it off on the basis that it had no place in this hearing. We would be advertising one firm when all the rest of them were able to get the benefit of the business.

Awnings are in here, air conditioning, bathtubs, blinds, blowers, boilers, bookcases, barbecue pits, burglar alarms, burglar bars—I don't know what that is—bins, farm, grain; cornercups; brooders, chicken; cesspools—I would say that would be good—curbing; cabinets; kitchen; cisterns; closets; driveways; drains; dumbwaiters; garbage disposals; and door controls. Automatic door controls for garage.

Do you think it was ever the intention of this Congress that a man should have an automatic control on his garage, so he could drive in and the door could automatically open?

tric light fixtures; elevators; escalators; electric lines; electric
; fire doors; fireplaces; fences; filters; fire-alarm systems;
ouses; gates——

ould go on down the line. I am just trying to name items that
t think it was ever the intention of the Congress to finance.
rs, and so forth. Well, I will not take up any more time, but if
s no objection, we will place this list in the record. Here is one
barns, poultry houses, silos, utility buildings and hog houses and
ds. That comes under the act, under the farm procedure.
e list referred to follows:)

ditioning	Electric light fixtures
nts	Elevators
ns to structures	Escalators
s	Electric lines
	Electric plants
	Draft controls and dampers, automatic
its	Facades
s	Fans
rs	Fire doors
nts	Fireplaces
	Fire retardants
os	Flourescent lighting
venetian	Frames, window
s, furnace	Flower boxes
	Flues
ses, built-in	Foundations
s, furnace (oil or gas)	Fences
ie pits	Filters, air
	Fire alarm systems
rs, chicken (structure proper)	Fire escapes
alarms	Flooring
bars	Furnaces
om	Gables
enclosures	Garbage disposers
rm grain	Gas heating systems
lb, grain	Gaslines (from existing structure to main line)
s	Gasmeters
nts, window, etc.	Girders
ls	Grates, furnace
ys	Guardrails
coal	Grading
broom and clothes	Gutters
water	Greenhouses
s	Gates
i	Generators, electric
rd	Hallways
:	Hearths
s, kitchen	Heating systems
s	Heat control devices
	Hardware
s	Hangars, airplane
i	Heat and fuel saving devices
	Heaters
	Insulation
ys	Ironing boards, built-in
	Incinerators
ge systems	Interceptors (grease)
, well water	Jalousies
ooling and heating	Kennels
alters	Lacquering
rs, garbage	Landscaping
ntrols, automatic (for garages)	Lathing
	Lattice work

Lavatories	Shelter, cyclone and bomb
Lighting systems	Sprinkling systems
Linoleum, cemented	(Lawn)
Lockers, storage	(Roof)
Laundry chutes	Shutters
Lumber	Silos
Lighting fixtures	Siding and Shingles
Lightning rods	Structures, new (types):
Mail receivers	Barns
Mains, water	Poultry houses
Marquee	Silos
Medicine cabinets	Utility buildings
Mirrors	Bunkhouses for itinerate farm
Moulding	labor
Meters, electric and gas	Office buildings
Masonry	Bathhouses
Moisture vents	Wayside stands
Nooks, breakfast	Garages
Oil burners	Brooder houses
Outlets, electric	Hog houses
Painting	Tool sheds
Pantries	Greenhouses
Papering	Commercial structures
Partitions	Tourist cabins
Penthouses	Hotels
Piers	Motels
Piles	Dairy buildings
Pillars	Gasoline stations
Piping	Granaries
Plastering	Industrial buildings
Porches	Livery stables
Pumps, water	Stores
Paneling	Schools
Paving	Warehouses
Plumbing fixtures	Milkhouses
Photo murals	Service buildings
Poultry houses	Smokehouses
Pumps	Stables
Railings	Stall and stanchions (for barn)
Registers, heat	Steam cleaning (of exterior brick
Reservoirs	surface)
Revolving doors	Sterilizer, water
Rheostats	Silos
Radiators (for heating systems)	Sinks
Radiator covers	Sink combinations
Roofing	Stairs
Safes	Stands
Sanding	Stokers
Sash	Structures, prefabricated
Shades, window	Swimming pools
Shoring	Tennis courts
Sidewalks	Tiling
Sills	Tree surgery
Slatting	Tanks, fuel storage
Smokestacks	Television antennae
Steeples	Systems (apartment house, hotel, motel,
Stoops	hospital)
Storerooms	Termite control measures (replacement
Storm doors and windows	of damaged structural parts, poison-
Struts	ing of structural parts, poisoning
Stuccoing	of soil, separation of wood parts
Studding	of structure from earth)
Swimming pools	Vaults
Septic tanks	Venetian blinds
Service station, auto	Vents
Sewer lines (from existing structure to	Ventilation systems
main sewer)	

is
es
ing fans, attic
ood control
ors, kitchen

Wind mills
Wiring, electric
Water filters
Water heaters
Water purifiers
Water softeners
Chlorinators
Economizers
Waterproofing materials
Windows

owers
vells
ystems

tor LEHMAN. For example, in New York City if there is a
int alleging fraud, is the duty to investigate and prosecute
the State courts or the Department of Justice, under the
act?

OLNEY. This statute gives no State agency the authority to
ite criminally. The essential feature of this title I operation
which complaint is made is the swindling which is perpetrated
homeowner. That swindle is not the subject of Federal law.
is no Federal law that clearly applies to that as a swindle
raud.

local State law that applies to it. The local government, the
government, does have jurisdiction to prosecute these cases as
cases, just like any other bunko racket, and they have that
uthority. But let me make it clear that it is not their fault
ey have not done that successfully in these cases for the reason
ese traveling groups of hot salesmen move from place to place.
ome in like a swarm of locusts and will just go through a com-
selling all this stuff, and they move on. Now, it takes time
se people who have been stuck with these deals to find that
they are on the short end of one of these affairs.

by the time they go to the local police and the local district at-
these fellows have moved on. They have gotten their money
e lending institution when they get the completion certificates
ey are on their way, and it is an impossible thing to expect
tes to try to stop this racket by fraud prosecution. And it is
nable to expect them to do it when the thing is being under-
by an agency of the Federal Government.

tor FREAR. Mr. Chairman, may I ask a question along that
ne?

CHAIRMAN. Senator Frear.

tor FREAR. I think you said you were interested in State crim-
osecution before you came here, that that was your background.

OLNEY. Yes, sir.

tor FREAR. Has it appeared since you have been in the Depart-
f Justice that these bunko men—that is a new term to me—came
State, maybe, and went to another State or different parts of
te? From your observation since you have been here, has there
recurrence in any locality where these men have come in and
oved on? Have they come back again or have they just moved
stayed moved.

OLNEY. Yes, sir. They are very transient. They go all over
ce. For example, there is a fellow named Harry Kane who has
list of aliases.

tor FREAR. That is not former Senator Cain, of course?

OLNEY. No. This fellow is the brother of Mickey Cohen, a
own hoodlum down in Los Angeles, who is the guest of

Bennett, at the present time, on McNeil Island. This fellow I got into this housing racket in Chicago. Then he went down Ohio. Then he was trying to operate down in Texas. And that was typical. The men who, for example, that we encountered in California, both in the north and in the south, had previously operated same type of swindle in Ohio and in Illinois and in other places.

Then they will move on, and then they come back, but usually in a different field. Now, at one time it was siding and roofing. That was big stuff. They were very active in that, and having exhausted that, they come on with something else, barbecue pits or aluminum blinds or air-conditioning, or something of that kind.

One of the most ridiculous things was water softeners out in the northern area of California, there, where the water comes directly from the Sierra Nevada, and it has almost no chemical in it. They can't get it any softer.

The CHAIRMAN. Were water softeners on the list we have?

Mr. OLNEY. Yes. In connection with this list, maybe this ought to be off the record, but we had a case down in Detroit where one fellow financed the alimony payments to his wife with an FHA loan. That is a home improvement.

The CHAIRMAN. That would be a home improvement. It may well be.

Senator FREAR. In your duty as a local enforcement man, after a group of locusts had moved through and sold them one or another of these approved items—I believe you stated earlier in your testimony that it was the people who were being swindled, the homeowners who were being swindled. Those homeowners were resident—where were you from, sir?

Mr. OLNEY. California, sir.

Senator FREAR. Was it not the duty of the local enforcement office to protect the people in California, even though the violations were under a Federal act?

Mr. OLNEY. Surely. They have the duty to do whatever they can and as a matter of fact, in that State, to my knowledge, they have done everything they can.

For example, in the city of Los Angeles, with respect to one of the principal offenders on which FHA—we made a request for an investigation ourselves this last year, of this particular concern, and that came up with only something like 100 complaints. Now, to my knowledge, there are over 500 complaints against that same concern that have been handled and investigated by the Los Angeles district attorney's office.

Senator FREAR. Who came up with only 100 complaints?

Mr. OLNEY. The FHA investigators.

Senator FREAR. When actually there had been over 500 complaints, is that right?

Mr. OLNEY. That is right. And I should say they prepared the cases on these complaints. For example, they referred those complaints to the United States attorney in Los Angeles the day before the statute of limitations ran out on one of the principal offenders, and the statute ran within 5 days on several of the others, so that there was never any real opportunity—

Senator FREAR. FHA did that?

Mr. OLNEY. Yes.

Senator FREAR. FHA presented them 1 day or 5 days before the statute of limitations ran out?

Mr. OLNEY. Yes.

Senator FREAR. It is clearly evident that they knew they couldn't be prosecuted. Is that your opinion?

Mr. OLNEY. Well; I don't know whether they knew it or not.

Senator FREAR. Isn't it fair to assume, at least?

The CHAIRMAN. You knew they couldn't be prosecuted because the statute of limitations was running out?

Senator FREAR. That they had, perhaps, deliberately waited until that hour to present them.

Mr. OLNEY. I have no reason to say it was deliberate, at all, and I would doubt very much that that was the case.

Senator FREAR. But they had accumulated a large number of cases and it no doubt had taken some time to accumulate a large number, whereas had they given to the district attorney half of that amount 30 or 60 days previous to that, it certainly would not be unreasonable; would it?

Mr. OLNEY. Not at all, no. They might have concentrated on one and given them the one before the statute ran out, but in connection with that same inquiry, if you are interested in it—

Senator FREAR. Oh, I am surely interested.

Mr. OLNEY. The complaints—and you can prosecute these things, of course—the State action is not a bar to Federal action—the complaints in the Los Angeles district attorney's office, of which there are some 500, the statute hadn't run against them, but the FHA advisers never went over and asked about them. They made no inquiry of the local agencies as to whether they had been getting complaints on this thing.

Now, on top of that, the way they investigated these cases was to merely attempt to make a case against the salesman, and this concern we are dealing with is a corporation, well organized, and their salesmen have a pattern of this kind of practice.

FHA made no investigation to develop evidence to show what the salesmen were doing, that what they were doing was upon the direction of the officers of the corporation, and that it was the corporate officers who were making most of the money, who were responsible for the fraud.

We asked them to go back and try to develop that evidence and they stated that they didn't think it was worth while sending an investigator back there to do that.

The CHAIRMAN. Who said that?

Mr. OLNEY. FHA informed us to that effect.

Senator FREAR. I think it has also been testified to before this committee that FHA lacked sufficient personnel to make proper investigations. Do you concur in that?

Mr. OLNEY. Oh, yes.

Senator FREAR. Then would it not be logical, also, for me to ask you this question, you being a former local law enforcement officer, that perhaps the duty of the local enforcement officer should have been to protect its citizens and assist FHA in these prosecutions where maybe he knew there weren't sufficient people in the FHA to investigate and prosecute?

Mr. OLNEY. As far as I know, they have done everything they could.

Senator FREAR. You mean, so far as you and California—please understand, I don't want to use you as an example. What I want to find out, personally, and maybe I should just ask that question instead of going around to all these others. Would it not be better for the Federal Government to permit local governments to do the work in courts to investigate and prosecute, rather than to not permit it, in this case particularly? In other words, you have said that no law, I believe, no Federal law, gives authority to local prosecuting people to investigate and prosecute under a local law.

Couldn't we, in the housing law, authorize the Federal Government to give to local people that privilege and authority in order to protect the citizen from just what has been happening to him?

Mr. OLNEY. No, sir, I don't think that you could. I don't believe that the Federal Government could constitutionally confer on State agencies the power to enforce Federal statutes, but neither do I think that it is necessary, because the fraud which is the gist of the thing is invariably and always a State offense. And the fact that there are Federal laws involved does not exclude the State government from taking action.

They can prosecute these people as just plain swindlers and bunko men at any time they want to, if they can catch them and if they can get the evidence.

Senator FREAR. Regardless of whether they are operating under a Federal statute or not?

The CHAIRMAN. It violates State laws as well as Federal.

Senator FREAR. Have the State enforcement officers been doing much to take care of this situation, or have they left it up to the FHA to enforce it?

Mr. OLNEY. Now, I am not speaking just for the west coast when I say the States have been doing a great deal to break up this racket. They have put on concentrated drives against swindlers of this type. They have gotten in touch with better business bureaus and asked them to put out the word to their members of the kind of fraud that was going on in their vicinities. I think they have done everything that could be expected of them.

Senator FREAR. I don't want you to think I was using California or you as an example, sir. If that is the case, I apologize to you. I didn't have any intention of that at all. What I am trying to find out is, where have we been lax in writing the law, permitting this type of scandal to take advantage of the innocent people, in many cases, of this country?

Mr. OLNEY. I think it is somewhat difficult to fix the responsibility, as Senator Capehart very well pointed out. There is a considerable responsibility on the lending institution. A lending institution, if it wants, can limit itself to decent people from whom they will take paper. FHA, also, as an organization, as an administrative group, can, under its own regulations and under the laws, tighten up so that these racketeers are frozen out of the picture.

Now, the Congress, on the other hand, set the thing up, the whole matter. It could be shut off, no doubt, by legislation, but I wouldn't want to make any recommendations as to how that should be accomplished.

Senator FREAR. You think, if I understand previous testimony of yours, that the present law could prohibit by rules and regulations of the FHA under proper administration, this type of action, so that it is principally a problem of administration?

Mr. OLNEY. I think so, yes. I think it is important to make that clear, that the solution to this thing—I am satisfied of this—that the solution to this problem of swindling under means of FHA-insured plans, is not to be solved by so simple a device as a criminal law. We would pursue these fellows with FBI investigations and criminal prosecutions indefinitely and we could never take care of them all. There are too many.

We can't catch up with them. They can go out and operate faster than we can keep up with them. So that the method of meeting the problem is to make the thing impossible of happening in the first place.

The CHAIRMAN. Don't you think that the lending agencies should be concerned? The lending agencies are not always banks, but are financing companies, sometimes, are they not?

Mr. OLNEY. Yes.

The CHAIRMAN. Are these lending agencies principally finance companies, trust companies? There is a long list of about 8,000 of them. I think, if there is no objection from the committee, we will ask the clerk to find out from FHA the categories of lending agencies. That is, the number that were finance companies. The number organized specifically for this purpose, the numbers that were Federal Reserve banks and State banks, and get a breakdown.

(The information referred to follows:)

QUALIFICATIONS FOR A TITLE I CONTRACT OF INSURANCE

Section 2 (a) of title I of the National Housing Act, as amended, states that: The Commissioner is authorized and empowered to insure banks, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, and other such financial institutions which the Commissioner finds to be qualified by experience or facilities and approves as eligible for credit insurance, against losses which they may sustain as result of loans and advances of credit." Application for a contract of insurance made upon a prescribed form, copy of which is attached.

The following institutions are eligible to hold a contract of insurance:

1. Financial institutions which have held a contract of insurance and have demonstrated to the Commissioner their ability to conduct satisfactorily their title I operations.
2. Members of the Federal Reserve System, of the Federal Home Loan Bank system, and institutions whose deposits are insured by the Federal Deposit Insurance Corporation.
3. Any Federal, State, or municipal governmental agency that is or may hereafter be empowered to conduct an installment lending operation.

Any lending institution not hereinbefore mentioned may qualify for a contract of insurance upon application, if it possesses the following qualifications and meets the following conditions to the satisfaction of the Commissioner:

1. It is a chartered institution or other permanent organization having succession and having sound capital funds properly proportioned to its liabilities and to the character and extent of its operations.

2. It is subject to inspection and supervision by a governmental agency; or, if not subject to such inspection and supervision, it submits an independent detailed audit of its books made by an accountant satisfactory to the Commissioner, and so long as it holds a contract of insurance, it files with the Commissioner similar audits at least once in each calendar year.

3. Its principal activity is lending funds, or investing in mortgages, consumer installment notes, or similar advances of credit, and it demonstrates its ability to pass on borrower's credit and to effect collections.

4. It is permitted by statute in the jurisdiction(s), in which it proposes to operate, to make loans in the maximum amounts and maturities as prescribed by the act.

5. It has lending quarters and facilities that are in keeping with the accepted facilities of financial institutions making consumer-credit-type loans.

Institutions which are members of the Federal Reserve System, of the Federal Home Loan Bank System, and institutions whose deposits are insured by the Federal Deposit Insurance Corporation are primarily banks or building and loan institutions and represent about 90 percent of the institutions active under title I.

In addition to the qualifications mentioned, the administration, as a matter of policy, has stipulated that a lending institution not under acceptable governmental supervision must have a tangible net worth in sound assets of at least \$100,000. This stipulation has applied primarily to finance companies and mortgage companies.

Early in the history of title I there were a number of finance companies active in the program that were subsidiary to manufacturers or dealer organizations. The experience with such finance companies was generally unsatisfactory. It developed in some instances that the primary aim of the parent organization was to push the sale of its product, and as a result the credit policy of the subsidiary finance company was dictated by the sales department.

In view of this experience, which culminated in the Government assuming an undue insurance hazard, a policy was adopted early in 1951 of refusing to issue any new contracts of insurance to subsidiary finance companies.

To the best of our knowledge, there is no record of a subsidiary financing outlet being set up by another financial institution or institutions for the exclusive origination of title I loans, and we know of only one instance in which an independently owned and operated institution has been organized for the sole purpose of financing title I transactions.

Following are the specific types of institutions which may qualify for title I contracts under the foregoing criteria:

- | | |
|---|--|
| <p>1. Commercial banks:</p> <ul style="list-style-type: none"> National banks State banks Trust companies Industrial banks <p>2. Savings institutions:</p> <ul style="list-style-type: none"> Mutual savings banks Stock savings banks Federal savings and loan associations | <p>2. Savings institutions—Continued</p> <ul style="list-style-type: none"> State savings and loan associations Federal credit unions State credit unions Cooperative banks Homestead associations <p>3. Private lending institutions:</p> <ul style="list-style-type: none"> Finance companies Mortgage companies Consumer credit companies |
|---|--|

HOUSING ACT OF 1954

1605

FORM FH 21
Rev. Feb. 1952

APPLICATION FOR CONTRACT OF INSURANCE
Title I Property Improvement Loans

Form Approved
Bureau Budget No. 63-2337.4

FEDERAL HOUSING COMMISSIONER
WASHINGTON 25, D. C.

Date _____ 19 ____

The undersigned hereby applies for a Contract of Insurance with respect to Property Improvement Loans under the provisions of Title I, Section 2 of the National Housing Act, as amended, and the Regulations of the Federal Housing Commissioner issued thereunder. We submit the following information regarding our qualifications:

(ANSWER ALL QUESTIONS)

1. Name _____				
2. Type of institution (check one)				
<input type="checkbox"/> National Bank		<input type="checkbox"/> Savings & Loan Association		
<input type="checkbox"/> State Chartered Bank (all types)		<input type="checkbox"/> Other (specify) _____		
<input type="checkbox"/> Finance Company				
3. Date organized _____		4. Incorporated under laws of _____		
5. Member				
<input type="checkbox"/> Federal Deposit Insurance Corp.		<input type="checkbox"/> Federal Home Loan Bank System		
<input type="checkbox"/> Federal Reserve System		<input type="checkbox"/> Federal Savings & Loan Insurance Corp.		
We are under supervision of _____				
6. Trading area in which loans will be originated or serviced _____		7. List branch offices originating or servicing these loans _____		
8. We propose to (check one or both)		9. We propose to (check one or both)		
<input type="checkbox"/> Make loans direct to borrower		<input type="checkbox"/> Hold notes in our portfolio		
<input type="checkbox"/> Purchase notes from dealers		<input type="checkbox"/> Sell notes to: _____		
10. Show below approximate amount of loans of selected type made in last fiscal year, ending _____ 19 ____				
Type of Loan	\$Volume	Max. Maturity	Rate Charged*	Type of Security
Auto				
Appliance				
Personal				
Repair-Improvement				
Real Estate				
*Include special fees, if any, and indicate if on discount or simple interest basis				

11. We submit as attachments to this application:

- (a) A statement of our established policy in the making of consumer credit loans, including the investigation and approval of borrowers' credit and the method of collection; also shown is the proposed credit and collection procedures we will adopt for Title I loans.
- (b) A copy of our latest financial statement.
- (c) A list of bank references and lines of credit (not necessary if applicant is under Federal or State supervision)

☐ We are on FHA's
Mailing List

☐ Please place us on
FHA's Mailing List

EXACT CORPORATE TITLE

By _____

Title of Officer _____

ADDRESS _____
Street and Number

City _____ County _____ State _____

The CHAIRMAN. The more I listen to this, the more I am convinced that the lending agencies have some responsibility here that I am fearful they haven't accepted and lived up to.

Senator LEHMAN. May I ask Mr. Olney one question?

There is one thing which I do not think has been determined by testimony of anybody who has appeared before us. There undoubtedly are a great many abuses in the administration and operation of title I. There is no question at all about that. It is not clear to me whether the abuses to which you and other witnesses have referred are due mainly to the high-pressure methods of salesmen in persuading the homeowners to buy, or contract for things which they didn't need, such as these pits, and aluminum shades, and many other things.

The complaint has been made that in many cases, these high-pressure salesmen do sell these homeowners the idea of including in their remodeling plans some of these quite unnecessary gadgets. That is one form of abuse.

The other form of abuse may be connected with the failure of the builders, the dealers, to deliver the goods for which they have contracted. In other words, if they persuade a man to buy aluminum blinds, is it claimed that the aluminum blinds are not delivered, or other work is not properly or adequately or honestly done? Which of those two abuses, in your opinion, is the most serious, or occurs the most frequently?

Mr. OLNEY. Senator, I think they both go hand in hand. Usually you find both abuses together. You will find these salesmen using the most high-pressure methods to sell stuff that isn't needed. Now, for example, there is the case of a woman out in Sioux City, Iowa, who lived in a house about 20 by 22 feet. That is the size of the house.

The salesman came out there and sold her, under a \$645-insured loan, a fire-alarm system for some \$500, or something of that kind. Now, that is high-pressure salesmanship and it is typical of what goes on. But also, where you have people selling, for example, siding, or roofing, you will have the salesman using methods of that kind, selling stuff where it shouldn't be applied at all, and then when it is put on, it is shoddy, it is not well done, and you will find that the amount of money that the man pays will go up as high as 3 and 4 times what it would cost to have a legitimate dealer come in and put on the same stuff. Now that has happened over and over again.

Senator LEHMAN. Let me ask you this. There is no question in my mind that title I has been of real benefit to the people of this country. It has made possible the remodeling and rehabilitation of many homes that had deteriorated, or were really in a slum condition. Therefore, I do not believe we want to do anything through new legislation or amended legislation that is going to make the continuation of title I programs, properly administered, an assured thing. I can see perfectly well that steps can be taken by the law enforcement officers, whether they be in State jurisdiction or Federal jurisdiction, by which a man, a contractor, a builder, who delivers defective goods, or goods of a quality less than that for which the agreement called for, I can see how that man can be punished and the home builder protected.

But what worries me is—and I hope you have an answer, because nobody has yet given an answer—how can we protect people from their own folly? How can we protect a man from buying an air conditioner if he thinks that he wants an air conditioner, or that it

to his welfare or his happiness? That thing is the thing that ties me in connection with this legislation more than anything

Mr. OLNEY. I would say in that connection, Senator, there are two things that could be done. One is some kind of educational program conducted by FHA, itself, as to what is appropriate as a home improvement. There could also be some reasonable restriction as to what it would be that FHA would insure, and then there could be a law adopted of requiring and holding the lending institutions responsible for the kind of paper which they accept. I think those things, sir, would contribute toward the end you have in mind.

Mr. CHAIRMAN. This probably has little bearing on Senator Lehman's question, but it is often unfair to ask an attorney an opinion on the law, but I want to read the law, here. This is "Insurance of Financial Institutions."

the purpose of financing—

and, I won't read to you that point, but—

the purpose of financing alterations, repairs and improvements upon or in connection with existing structures.

Could you call a television antenna an improvement or an alteration? Would you call air conditioning an improvement or an alteration? Would you call many, many of these items that we put in the record, here, an alteration? How did they get in under the law?

Mr. OLNEY. Well, that is the administrative interpretation that is in the law by FHA. I can't give you an explanation of it, but probably they could.

Mr. CHAIRMAN. I think one of the troubles, here, is they got completely away from the intent of Congress and completely away from the law. It was never intended by Congress that they should guarantee loans on many, many of the items in the list that we put in the record, here, this morning, in my opinion.

It wasn't here when it was passed, of course. It was passed back in 1934. I am sure that if I had known they were doing that sort of thing, I wouldn't have voted for it.

Senator PAYNE. Mr. Chairman?

Mr. CHAIRMAN. Senator Payne.

Senator PAYNE. Mr. Olney, you were referring a while ago to the fact that reports were being carried in the press concerning these things that were taking place, and also their reaching into the better business bureaus, and so forth.

Do you have any information as to the approximate time those things were building up and public information was being given out? Would naturally be available to those interested in FHA; or not, for that matter?

Mr. OLNEY. The first newspaper articles that came to my attention were in the San Francisco Call Bulletin, and I am trying to get my recollection of the date on that. It seems to me it was about the first of 1953.

Senator PAYNE. April 1953?

Mr. OLNEY. Yes. I understand about the same time, if not at the same time, there were some articles also in, I believe, the Los Angeles Times and News on the same subject.

Senator PAYNE. In other words, this thing had been going on for quite some period of time before it finally broke out in the open?

Mr. OLNEY. This thing has been going on—it really got started in 1947, and it reached its peak in 1950 or 1951, along in there.

Senator PAYNE. According to testimony that was given here the other day, it appears that an FBI report was submitted, or was made available in connection with X construction company in California and Y credit company in California. Do you happen to know whether that request to the FBI to check into that situation came about as a result of a request from the Department of Justice, from the Attorney General's office, or was it as a result of a request from Administrator Cole? Do you happen to know that?

Mr. OLNEY. I think I know of the instance the Senator is referring to. That particular case and company was a matter of interest to us as well as to Mr. Cole. Mr. Cole did discuss that with us before we had made our request for the FBI investigation, and he requested the FBI investigation through me and it was the Criminal Division who actually asked the FBI to undertake the inquiry in that case.

Senator PAYNE. The reason I mentioned it was to make sure we are correct on it. In the testimony given the other day, Administrator Cole referred to the date of April 29, 1953, as the date on which he then sent to Commissioner Hollyday the first FBI report in connection with large-scale violations of FHA title I, and fraud against the Government.

Mr. OLNEY. I am either not talking about the same case, or we are talking about one that I am not familiar with. The incident I was referring to took place——

Senator PAYNE. In July?

Mr. OLNEY. No; in February of this year.

Senator PAYNE. February of this year?

Mr. OLNEY. Yes.

As a matter of fact, I never met Mr. Cole until, I believe, January.

Senator PAYNE. Well, I am taking this from a record that was made available to me in connection with the testimony of Administrator Cole where he refers to the date of April 29, 1953, in which he first sent the report of the FBI, on these presumed violations and fraud, and requested immediate investigation by the FHA. Then it went on down through to the Office of the Administrator in San Francisco, concerning these violations, under date of June 4 and June 11, and it carries through to June 16, June 24, and June 29 and then comes in to July 23 when the Director, Compliance and Special Investigations Office of the Administrator "discussed this FHA-I violation with the Department of Justice on July 22, 1953." And as a result of the discussion with the Department of Justice, Administrator Cole advised Commissioner Hollyday that the FBI was prepared to investigate these violations if FHA wasn't going to do it, and then it goes on down through as to what took place from that time on. All I was trying to do was fix in my own mind when your agency, or your group, came definitely into the picture and whether or not the request for the FBI check was made through your office or whether it was made through the office of Administrator Cole.

Mr. OLNEY. Senator, I have no personal familiarity with the incidents that you are relating but I do want to make it clear that this

urvey that I speak of, that the FBI made, was made in July at my request.

That was without any reference from anybody from FHA, and it is not the same thing at all, that Mr. Cole was talking about here. I think the thing that he apparently was talking about was some specific case which was evidently taken up with attorneys in the Criminal Division, but I don't happen to be familiar with the details of that, myself.

Senator PAYNE. Have you as a result of the surveys that have been made, been able to determine whether or not the FHA offices in these various States, through their personnel, make any spot checks through the banks, lending institutions, and so forth, of whether or not the loans that are being made through the banks for these improvements follow a set pattern, based upon what would be known to be fair cost and so forth? I don't mean every case, but making a spot check down through?

Mr. OLNEY. Senator, I do not know what their practices are in that respect. I do know that they have a very wide consideration of offices.

For example, I have here an FHA publication which is a map of the United States showing their regions and listing all of their regional offices and it is perfectly plain from that, that they have a great many offices and they are so widely distributed that they are very close to the people. They know what is going on in their own areas.

Now, we have had some instances where it was perfectly plain that FHA officials would know about the acts of these swindlers, for example. Now, in the city of Oakland there was one occasion when a whole flock of these high-pressure salesmen hit the town all at once. There were as many as 200 of them in 2 different hotels, and the thing that became a laughing stock around the FHA office was, these people were selling siding and they used to call these hotels "Siding Manor" in a joking way, because of these people who were living there, so that the distribution of the organization, the offices and what not, is certainly broad enough so that it should accumulate the knowledge of what is going on in the field in which they are acting.

Senator PAYNE. I was interested in the chairman's statement with reference to the banks. I agree with him on that, that the bank naturally has a responsibility. It seems to me that any lending officer in a bank, knowing the locale of the area, should be able to detect with a reasonable degree of accuracy whether or not loans for a certain type of work by a certain outfit such as we are talking about that is charging far over what is the customary pattern, should send up a flag right off the bat by doing a little checking somewhere to find out whether or not there is something. I agree with you very definitely that a person who takes over a public position that is financed by the public, itself, definitely has a public responsibility to try to protect the interests of the public in every way possible that he can. Just because they may not be charged by the law to do something, they certainly have a definite obligation to follow through in any case that they have brought to their attention, to see that the rights of the public are protected.

The CHAIRMAN. Do you know whether or not these groups of salesmen that you are talking about were financing their sales through legitimate banks in these towns, well known banks, or were they send-

ing their paper to other banks in other cities and to finance companies that were little known? It is just unbelievable to me—and it is one of the things we are going to check into. We are going to take a couple cases of these groups and find out whether or not these established banks, well known banks in the respective towns, were taking paper from salesmen they hardly knew, who were members of the group. We are going to run it down. Do you happen to know at the moment?

Mr. OLNEY. On that, Senator, I think in most instances the banks take the paper from the dealers, rather than the salesmen. There is a step in there that serves as a sort of insulation. Nevertheless, I think that you will be very surprised to learn the results of the inquiries you make.

The CHAIRMAN. The dealer was a local man in most instances, was he not?

Mr. OLNEY. No.

The CHAIRMAN. He was not?

Mr. OLNEY. The dealer is the head man in the racket. He has salesmen working for him on a commission basis, and he is just as much of a fly-by-night—

The CHAIRMAN. The dealer may be as much as 100 miles away from the town where these products were sold that he was going to handle.

Mr. OLNEY. Sometimes, yes.

Senator FREAR. I think that is very interesting, Mr. Chairman, and it is a very fine example of what may be happening not only there but in other places, too. They had a run of 200 men coming in selling nothing but siding, and they were not delivering it through a local dealer?

Mr. OLNEY. Oh, no.

Senator FREAR. They were delivering it—it was delivered, I assume?

Mr. OLNEY. Oh, yes; they put up some stuff.

Senator FREAR. It came perhaps from some other States, even?

Mr. OLNEY. That is quite right.

Senator FREAR. It was headed by one man who was the dealer, in this instance?

Mr. OLNEY. Yes.

Senator FREAR. That dealer accumulated the paper from all of the salesmen?

Mr. OLNEY. That is right.

Senator FREAR. And he discounted it or he took it to the bank and received his money, whereby FHA insured it. He took it to one bank or several banks in or out of the State, or how was the paper given so that he got his money for the siding?

Mr. OLNEY. I think that varied in a good many cases. Of course he took it wherever he could get a bank to agree to take the paper, but in most cases, they took it to what would ordinarily be described as legitimate lending institutions.

Senator FREAR. He took it to legitimate lending institutions or he wouldn't have gotten his money. I think we could assume that.

Maybe he did a little work in peddling the paper as well as he did the siding. That was possible in that instance.

Mr. OLNEY. That is quite right, and that is where, certainly these items that I referred to earlier, showed up, of certain persons in banks

who were evidently corrupted into accepting some of that paper, by receiving for themselves a certain amount for each one they took.

Senator LEHMAN. You used the word "dealer." In many cases isn't he also the builder, who takes the contract and does the work?

Mr. OLNEY. That is right; very often. In fact, he usually hires the men who put the stuff up.

Senator LEHMAN. And that man is a local man, isn't he? The builder, I am talking about.

Mr. OLNEY. He may hire some local carpenters or something of that kind. He will have a group of construction people that he recruits, but I would have no idea as to which vicinity they come from.

Senator LEHMAN. In response to a question which I asked you earlier today, about the possible collusion of banks, I believe your answer was that you have found certain instances of collusion on the part of individuals in the banks.

Mr. OLNEY. Yes.

Senator LEHMAN. Have you found any substantial amount of collusion by the banks, themselves, as a pattern or is it just a sporadic thing?

Mr. OLNEY. No, sir; I couldn't say we have found any such thing as a pattern. There are many banks that have become alarmed and that have become very careful and cautious about the kind of paper that they have accepted, and banks of that kind have not taken part, to any extent, in this kind of racket.

Senator LEHMAN. You made the statement earlier in the day, too, that some of the banks are so eager to get this paper—and I agree with you that it is very attractive paper, which pays over 9.5 percent—that in certain cases they have gone as far south as Alabama to acquire it.

Have you come across any evidence that any of the banks—for instance, in my State—have formed branches or subsidiary organizations for the purpose of making title I loans outside of their own banking machinery?

Mr. OLNEY. Senator, Mr. Cossack, who is sitting here beside me, has been handling this himself, and tells me there have been such cases that we have found, but, frankly, I am not familiar with them of my own knowledge.

Senator LEHMAN. When you found those, what did you do about it? Was that an illegal procedure?

Mr. OLNEY. No; there was nothing illegal about it.

Senator LEHMAN. Did you bring it to the attention of the FHA?

Mr. OLNEY. I don't believe we did. If that had happened I would have known about it.

Senator LEHMAN. I should think it would be a good idea to have brought it to the attention of the FHA, because that is something, I am quite sure, was never contemplated in the original act or the amendments.

Mr. OLNEY. I might make clear, Senator, that was not discovered by us until this survey was made at our request by the FBI. We found that out as a result of that.

Senator FREAR. Just to return to these 200 men, these 200 men who came down as slick salesmen for siding, have you found it that when they run out of places to sell this siding that that same 200 men, or a group similar to that, may go into some other swindling job, not specially under FHA, but anything other than that?

Mr. OLNEY. Yes, sir.

Senator FREAR. So they just took title I in this instance as being a wonderful outlet in which to make some quick money, but that group are swindlers, whether they are selling siding under FHA or whether they are selling heating pads in California or something else.

Mr. OLNEY. That is right. There are in our country a group of people that you can only describe as professional swindlers. They will be first in one business and then in another, and this home-improvement business has become infested with people of that kind. They used to be in different rackets and when they saturate the market on FHA stuff they go into something else, but they don't do anything that is legal.

I have one additional point that I would like to make as a result of some of the questions that were asked me here concerning the responsibility of the Federal Government in this thing. To my way of thinking it is one of the most distressing aspects of the whole matter. That is the use that is made of the name of the Federal Government by these swindlers in dealing with the victim. This high-pressure stuff that is put over is done in the name of the Federal agency—one of the things that sells this stuff to the poor sucker is that it is represented to him that it is an agency of the Federal Government that is insuring this thing.

The CHAIRMAN. Yes; I brought that out here on the first day of our hearing. There is no question about it. On all the applications and everything they sign, "United States Government forms" and "FHA" is all over it.

They have a right to feel they are dealing with honest people when they deal with their Government.

Senator PAYNE. The question still comes to my mind that when a group of these people go into a given community and set up and operate, it is just inconceivable that the local, legitimate merchants, the lumber dealers and the people who are handling that type of work would not have knowledge of the fact that they are going through there and would not bring that to the attention of the Federal Housing people, inquiring a little bit about it.

Mr. OLNEY. Senator, you are quite right and I want to say they scream like eagles. They have made complaint after complaint after complaint. They have been as vociferous as they possibly could about what was going on.

Senator PAYNE. That has been going on for some time.

Mr. OLNEY. For years.

Senator PAYNE. And yet the evidence shows that the local agencies of the Federal Housing Administration, and their superiors up through the line, over that long period of time, have done nothing about it in order to crack down on them?

Mr. OLNEY. Well, the conditions go on in spite of the complaints.

The CHAIRMAN. All the testimony before this committee by witnesses, industry, the FHA itself, and the Government has been that it was a good thing and nothing was wrong. They had to write 253 letters in 1951, I think it was, and then they were so happy in 1952 they dropped down to 185. That shows you that somebody has been keeping something from this Congress and this committee. The more I listen to ^{the} more convinced I am that it is really a shame how they ^{run} this whole business up. FHA and FHA

officials have been covering this whole business up. They have not called it to the attention of this committee. They even recommended this last time that the limit be increased from \$2,500 to \$3,000, that the terms be increased from 30 to 36 months. And the President's Commission did the same thing. It is made up primarily of people in the building business, the real-estate business. As I said yesterday, from now on, we are going to use our own judgment. We are tired of listening to these people. The more I listen to witnesses here, the more convinced I am of that.

Mr. OLNEY. Senator, there is one additional aspect I would like to mention and that is the matter of collection on these obligations and the position in which the Federal Government is going to find itself when there are defaults.

The record of defaults has not been very large, as yet. FHA has a good record, and we would like to point on that, but the time is going to come when these people who have been taken in this fashion are going to have great difficulty in making their payments, and then there is going to have to be the process of collection.

Eventually, because the Federal Government has insured these loans, it will fall on some agency of the Federal Government—probably the Civil Division of the Department of Justice—to try to collect these sums, and here is what the position will be: Here will be an agency of the Federal Government trying to squeeze out of these people who have been victimized in this fashion through the insurance that was issued by another agency of the Federal Government, the last little cent of the obligation.

The CHAIRMAN. What you are saying is that the Federal Government now, through the Attorney General's Office, the Department of Justice, has to go out and become a collection agency and collect money from these people?

Mr. OLNEY. They have to collect on the results of swindles.

Senator FREAR. What is the length of time under which a title I loan can be made, the maximum length of time?

Mr. OLNEY. I don't know, sir.

The CHAIRMAN. Three years and thirty-two days.

Senator FREAR. Anything that is over 3 years of age has either been paid off or has shown up as a delinquency, to date; is that not right?

Mr. OLNEY. I suppose so.

Senator FREAR. So we are going to expect our delinquencies in loans that have been made within the last 3-year period.

Mr. OLNEY. I guess that is right.

Senator FREAR. Of course, if they are made over a period of 3 years, their payments are rather stiff if they have a substantial loan?

Mr. OLNEY. Senator, I can't answer those questions. I frankly don't know enough about the business. The racket part of it I think I know something about.

Senator FREAR. I think you have given a very good demonstration that you do know something about the racket side.

The CHAIRMAN. Will you continue and tell us about this pattern so we can get a better idea of that?

Mr. OLNEY. I will be glad to. These are some of the typical techniques that are being used.

There is the model-home racket. Now this approach appeals to the ego and the stupidity of the victim and that is one of the most

widely used of these variations. It is often used together with other schemes and misrepresentations as an introduction. In one variation the victim is told that the manufacturer or dealer desires to introduce his product in the area and has chosen the victim's home as a model, or a sample. The victim is promised factory prices, bonuses, or discounts for the privilege of using his home as an advertising sample. As a matter of fact, many others in the neighborhood may be fed the same line. More often than not the bonuses or the discounts are not forthcoming and as usual the price is exorbitant and totally unrelated to factory or even reasonable retail price.

Then, there is the commission racket. The same sales talk of this victim will often be enticed by an offer of a commission for every sale made in the neighborhood as a result of his sample house. For every name suggested by him. He is told that as a result, the modernization of his home won't cost him anything. Possibly 1 or 2 commissions may be paid, although that is very rare. More often than not, the flow of commissions stops and is never paid at all.

Then, there is the guaranteed racket. The salesman will report that the product is having virtues and the guaranty of quality is far beyond the most optimistic puffing of legitimate dealers. In fact he specializes in shoddy and inferior products, and the salesman's representations are completely false.

Then, there is the completion certificate racket. The ultimate aim of the salesman in each one of these cases is the obtaining of the completion certificate signed by the homeowner because that is the thing that enables him to get his money. The lending institution will not pay on the notes until a signed completion certificate is presented. Salesmen and dealers have repeatedly resorted to forgery and deception to get this instrument before the work was completed or even started. Often the homeowner is induced to sign numerous papers in a welter of confusion and is told that they are commission or advertising contracts in the model home or commission deals and in fact he is signing a credit application, a note, and a completion certificate. As a result in many cases the work is neither completed and sometimes not even started when the completion certificate is presented to the bank by the dealer and he gets his money.

Then, there is the consolidation of debts racket. Again, the homeowner is the victim when he accepts the salesman's proposition to consolidate his outstanding debts into one large loan by consenting to an inflated price for his remodeling. Usually the homeowner balks at assuming a new obligation because he is already burdened with other installment payments.

Too often the victim finds that not only has he an obligation for his house repair greatly in excess of its worth but also still has other obligations which have not in fact been paid off. In many instances the homeowner is induced to falsify his credit application in this scheme by concealing the existence of other outstanding debts.

Then, there is the cash balance racket, too. A good sales talk is the one that is used to entice the homeowner to sign with the promise that a part of the high price will be refunded to him for vacation money or to pay off personal debts. The homeowner signs, fully aware that he is obligating himself for more than the construction work in the belief that he will in effect receive an inexpensive personal

in. Then, the unscrupulous dealer upon receipt of the money will fail to keep his promise of rebate. Sometimes they do give a rebate. When they do, they usually charge a high commission. Then, there is the double financing racket. After the homeowner receives his loan book from the bank, the salesman or the dealer will approach him and explain that a loan can be obtained from a more satisfactory lending institution on better terms. The salesman then the dealer thereupon talks the victim into parting with the loan book, signing a new credit application and a completion certificate. Sometime later, the victim becomes sharply aware that he has assumed obligations instead of 1, since the dealer has presented the completion certificate, the notes, and the credit application at another bank for a second loan.

Then there is the real estate downpayment racket. This is somewhat unrelated to the general schemes involving salesmen and dealers. It is a vicious fraud perpetrated by these real-estate salesmen. This is not the improvement business, but the real-estate people. A homeowner anxious to sell his house and unable to get the downpayment that he desires may be induced by the real-estate salesmen to apply for a title I improvement loan. That real-estate agent advises that no improvement need be made by the homeowner and that he could pocket the proceeds and transfer the notes to the purchaser of a house in lieu of the downpayment.

The CHAIRMAN. Have you had many cases like that?

Mr. OLNEY. Yes, sir, there have been a great many.

The CHAIRMAN. A great many cases of that nature?

Mr. OLNEY. Yes.

Then, there is the credit application racket. These approved lending institutions rely only on the information submitted in the credit application, if it is in accordance with the regulations. Perhaps the most flagrant deception in this field was practiced in two Southern States where a group of salesmen set up a phony credit agency and manufactured credit reports which they passed off on the lending institutions.

Then, there is the teardown technique, and this has shown up particularly with furnaces. This has been widely practiced by dealers with furnaces. The dealer will come to the home, or his dynamiters, and the homeowner is frightened into cooperation when he is told that there appears to be immediate danger of asphyxiation and fire. The dealer sends a man out to inspect the thing and the inspector scares the man and he is willing to sign up to protect the life of his family. Those are examples of the kinds of techniques characteristic in this field.

I want to call attention to one aspect of a great many of these, like the completion certificate thing. The homeowner himself violates the law at least technically when he signs the completion certificate when the job hasn't been finished. He violates the law himself, or at least technically, when he fills out an application and fails to state his other obligations.

There are many of these tricks that are used on him, and where he is put in the position of violating the law, himself, and that means that he is in a poor position to go to a law-enforcement agency, or go to the FHA, for that matter, and make a complaint about what has happened to him.

I only want to say with respect to that kind of practice that it is no fair thing to say that we shouldn't be disturbed about the homeowner, because he violated the law himself.

That trick of getting the victim to do something that is, in itself, illegal, is the oldest trick of the swindler and has gone on for hundreds of years. They like it because it is insurance, from their point of view, against criminal prosecution and against complaint by the victim.

In dealing with these cases, it is necessary to take stock of what the real fault and the real blame lies, but that is why it becomes so very difficult for the Federal and Criminal Division to prosecute these cases, because we have to prosecute under section 1010, which is the filing of these false statements. We have a strike on us at the outset when we must admit that our complaining witness who takes the witness stand has, himself, been guilty of the same violation that we are accusing the dealer and his hot salesman of perpetrating. It is a practical obstacle in the prosecution of these cases that is very real.

That completes my discussion of title I, sir.

The CHAIRMAN. Are there any questions, gentlemen?

Well, I don't think I have any further questions, Mr. Olney. You have been very helpful to us.

I want to place in the record at this time, if there is no objection, and I think I better read this memorandum from the Deputy Assistant Commissioner, David W. Cannon. It is to the Senate Banking and Currency Committee, and the subject is Dealers No Longer Subject to the Provisions of Regulation 8, Section 2.

That is a nice way to talk about these people who have been black-listed.

Yesterday, April 22, we delivered you 15 copies of our booklet on precautionary measures, dated January 31, 1953, and 15 copies of the second supplement to the list, including all dealers against whom precautionary measures were instituted between November 30, 1953, and April 22, 1954.

There are attached to this memorandum 15 copies of the list of dealers and salesmen whose names appeared in either the original booklet on precautionary measures, or the first supplement, and in whose cases the precautionary measures procedure has been rescinded. This list, as is stated in the caption, includes every individual or firm where such action has been taken through and including April 22, 1954.

If there is no objection, we will place this memorandum in the record—as well as the names—and I find there is about a page and a half of them.

In other words, these are people, if I understand it correctly—and if I am not correct, I wish somebody would correct me—who were once suspended or put under precaution, and the bankers were notified to be on the lookout for them, and now I don't know, they have kissed the book or something, and they are all right. They are now full-fledged dealers; in other words, they made amends for their wrongs and they are now back on the accredited list. (See appendix, p. 1966.)

Senator PAYNE. You have not touched the section 608 cases. I just wondered whether or not the Department of Justice has gone into any of those cases.

Mr. OLNEY. Yes, sir; we have gone into some of those cases, but we have never had that problem called to our attention in anything like the way in which title I was. We have had this experience, that we

we learned it has been impossible to make criminal cases out of these section 608's because FHA takes the position that even though we can prove that false estimates and false statements have been submitted by the promoters of these projects, FHA said they don't rely on them, and although they admit that they are false and that they are lies, because we don't rely on them we can't make a criminal case.

The CHAIRMAN. Let's get into that a little deeper. I learned about that the other day.

As a kid, I was redheaded, but not nearly as much so as when I learned of this.

Let me see if I understand this. The FHA says, "We made our own investigation. We arrived at this appraisal." Let us say it is \$100,000 higher than the actual cost, "and the figures that the builder gave us, we didn't pay any attention to, even though they were wrong—false or may have been false. We relied upon our own."

In other words, they maintain they didn't take the builder's figures and make him sign an affidavit that they were true, and then use those appraisals, but they made their own. That is what it is, isn't it?

Mr. OLNEY. Well, that is what they say, but if the committee is interested in this, I can give you specific examples in which FHA states its own position.

The CHAIRMAN. I wish you would, because I cannot conceive of such a situation. Nevertheless, it has been happening.

Mr. OLNEY. This is the case in which we thought, originally, we would be able to proceed in one of these section 608 cases on the basis of false statements. It is the case of the Joseph W. Williams, Inc., of Newberry, S. C. Investigation in that instance was made by the FBI and it was determined that there were discrepancies so great in the estimates and statements originally submitted that they couldn't be reconciled, and certainly if the FHA had relied on those statements, we would have a case of violation of section 1001.

The matter was investigated by the Department, and it was sent to the United States attorney for presentation to a grand jury for prosecution. Then, out of the blue sky, we got a letter from FHA which was dated April 30, 1953. It was on the stationery of the Office of the General Counsel and it was signed by B. C. Bovard, General Counsel, and the initials on it indicated it was dictated by H. M. Murphy, who has been the Assistant General Counsel for many years. It was addressed to the Attorney General and bore the caption describing the case as—

Fraud Against the Government; the Joseph B. Williams, Inc., Newberry, S. C., E. Summers, W. R. Reed, Frank E. Jordan, Jr., officers; James R. Carter, doing Business as Jimmy Carter Construction Co., Columbia, S. C.

SUB: This Office has been furnished a copy of a report of investigation made by the Federal Bureau of Investigation identified under the above-captioned subject, and it is assumed that your office has been or will be furnished a copy of the report.

The subject matter of the investigation concerns a rental project located at Newberry, S. C., identified as "The Joseph B. Williams, Inc.," the construction of which was financed with the assistance of a mortgage loan made by the Citizens & Southern National Bank of South Carolina, Charleston, S. C., and insured under section 608 of the National Housing Act (U. S. C., title 12, sec. 3). The construction of the project has been fully completed and a mortgage

loan in the amount of \$199,900 was finally endorsed for insurance on October 1951.

The FBI report states that the facts of this case were discussed with a United States Attorney Louis M. Shimel, Charleston, S. C., who advised the event prosecution was authorized in this case, he would proceed under a specific statute of section 1010, title 18, United States Code, and further Mr. Shimel was informed of the jurisdiction of the Federal Housing Administration under said section 1010 and that no further investigation was conducted by the Bureau. It was our thought that since the facts of it had been discussed with the assistant United States attorney and he had filed any prosecution as being under section 1010, title 18, United States Code, that this administration would be expected to take some further action with regard to the matter; and it is for this reason that this letter is written.

We have examined the report and raise the question as to whether further investigation would be needed to determine if prosecution was warranted since it appears that all the facts material to such determination are at hand. Any prosecution would appear to be based upon the submission of a false statement for the purpose of influencing the action of the Federal Housing Administration, and on this point it is believed that the following facts in relation to the actions taken by the Administration would be of material significance.

The determination made by the FHA as to the maximum insurable amount is based upon the FHA estimate of the replacement cost of the building improvements, and such estimate is not influenced by the amount of the contract entered into for the construction of the improvements. The FHA estimate is made during the underwriting processing of the case which takes place at the issuance of the commitment which sets forth the maximum in mortgage and other terms and conditions of insurance. The initial endorsement of the mortgage loan for insurance takes place at the time the loan is made pursuant to the outstanding commitment, and the amount of the construction contract is usually not known at the time of the closing, and if known, it is determined immediately prior to closing.

The construction, as completed, has been found acceptable as meeting requirements, and consequently the dwellings represent the security contemplated in our cost estimates. The fact that the actual construction cost may have been different in amount than the contract presented to this Administration and that the contractor encountered financial difficulties in performance did not, so far as we can determine, have a material effect on the ultimate results provided.

It is, of course, not our purpose to discourage prosecution, but we did have as our responsibility to point out the problems which would be encountered since we could not establish that the determination of the maximum insurable amount in mortgage or any other official action of the Administration in connection with the insurance of this loan was influenced by the side agreement which had the effect of reducing the amount of the construction contract as presented to the Administration.

If the United States attorney so desires, we shall be pleased to make arrangements for a discussion between his office and employees of this Administration in South Carolina to further explain FHA requirements and procedures which are pertinent to the question. We would appreciate being advised of the results of these developments.

Very truly yours,

B. C. BOVARD, *General Counsel*

We replied to the letter from Mr. Bovard.

The CHAIRMAN. Without objection, we will ask that your report be made a part of the record, and the letter that you just read be made a part of the record. You read it, but it will be made a part of the record.

(The letters referred to follow:)

FEDERAL HOUSING ADMINISTRATION,
OFFICE OF THE GENERAL COUNSEL,
Washington 25, D. C., April 30, 1953.

fraud against the Government, the Joseph B. Williams, Inc., Newberry, S. C., R. E. Summers, W. R. Reed, Frank E. Jordan, Jr., officers; James R. Carter, doing business as Jimmy Carter Construction Co., Columbia, S. C.

the honorable the ATTORNEY GENERAL,
Department of Justice, Washington 25, D. C.

Sir: This office has been furnished a copy of a report of investigation made by the Federal Bureau of Investigation identified under the above-captioned subject, and it is assumed that your office has been or will be furnished a copy of the report.

The subject matter of the investigation concerns a rental project located at Newberry, S. C., identified as "The Joseph B. Williams, Inc.," the construction of which was financed with the assistance of a mortgage loan made by the Citizens & Southern National Bank of South Carolina, Charleston, S. C., and insured under section 608 of the National Housing Act (U. S. C., title 12, sec. 1743). The construction of the project has been fully completed, and a mortgage loan in the amount of \$199,900 was finally endorsed for insurance on October 31, 1951. The FBI report states that the facts of this case were discussed with Assistant United States Attorney Louis M. Shimel, Charleston, S. C., who advised that in event prosecution was authorized in this case, he would proceed under the specific statute of section 1010, title 18, United States Code, and further, that Shimel was informed of the jurisdiction of the Federal Housing Administration under said section 1010 and that no further investigation would be conducted by the Bureau. It was our thought that since the facts of the case had been discussed with the assistant United States attorney and he had identified prosecution as being under section 1010, title 18, United States Code, that the Administration would be expected to take some further action in regard to the matter; and it is for this reason that this letter is written.

We have examined the report and raise the question as to whether or not further investigation would be needed to determine if prosecution would be warranted since it appears that all the facts material to such determination are at hand. Any prosecution would appear to be based upon the submission of a false statement for the purpose of influencing the action of the Federal Housing Administration, and on this point it is believed that the following facts in regard to the actions taken by the Administration would be of material significance. The determination made by the FHA as to the maximum insurable mortgage based upon the FHA estimate of the replacement cost of the building improvements, and such estimate is not influenced by the amount of the contract executed for the construction of the improvements. The FHA estimate of cost is made during the underwriting processing of the case which takes place prior to issuance of the commitment which sets forth the maximum insurable mortgage and other terms and conditions of insurance. The initial endorsement of a mortgage loan for insurance takes place at the time the loan is closed pursuant to the outstanding commitment, and the amount of the construction contract is usually not known at the time of the closing, and if known it would be immediately prior to closing. The construction as completed has been found acceptable as meeting FHA requirements, and consequently the dwellings represent the security contemplated in our cost estimates. The fact that the actual construction contract may have been different in amount than the contract presented to this Administration and that the contractor encountered financial difficulties in performance did not, so far as we can determine, have a material effect on the ultimate security provided.

It is, of course, not our purpose to discourage prosecution, but we did feel it our responsibility to point out the problems which would be encountered if we could not establish that the determination of the maximum insurable mortgage or any other official action of the Administration in connection with

the insurance of this loan was influenced by the side agreement which had the effect of reducing the amount of the construction contract as presented to this Administration.

If the United States attorney so desires, we shall be pleased to make arrangements for a discussion between his office and employees of this Administration in South Carolina to further explain FHA requirements and procedures which would be pertinent to the question. We would appreciate being advised of further developments.

Very truly yours,

B. C. BOVARD, *General Counsel*

MAY 19, 1953

Re the Joseph B. Williams, Inc., Newberry, S. C.; R. E. Summers, W. R. Reed, Frank E. Jordan, Jr., officers; James R. Carter, doing business as Jimmy Carter Construction Co., Columbia, S. C., fraud against the Government

B. C. BOVARD, Esq.,
General Counsel,
Federal Housing Administration,
Washington, D. C.

DEAR MR. BOVARD: Acknowledging your letter of April 30, 1953, addressed to the Attorney General, concerning the above case, this matter has been under investigation for possible violation of title 18, section 1001, United States Code.

You indicate a familiarity with the facts developed in the case which concerns the application for Federal Housing Administration insurance filed by Joseph B. Williams, Inc., sponsor of the Joseph B. Williams rental housing project, Newberry, S. C. The sponsor represented to your agency that a contract for the construction of this project had been executed with James R. Carter, doing business as Jimmy Carter Construction Co., amounting to \$189,898. Thereafter it developed that a separate contract existed between these parties calling for construction of the project at a cost of \$168,430. It is understood that local FHA officials had no knowledge of this second contract although in applying for FHA insurance it was represented by the sponsor that the construction contract was in the amount of \$189,898. On the face of it, this was considered to be a false misrepresentation because of the concealment of the material fact of the existence of the second contract which would constitute a violation of title 18, section 1001, United States Code, rather than a violation of title 18, section 1010, United States Code.

The United States attorney, after being informed of the Department's views, requested the FBI to make a further investigation to determine if local FHA officials would have been influenced in their decision in approving an application for insurance in this case if they had knowledge of the existence of the second contract. According to the information you supplied, such knowledge would not have influenced the processing of this case. This is difficult to reconcile since it is understood that under applicable regulations the sponsor is required to inform your agency representatives of the existence of the contract it has executed with the contractor, including the amount thereof and the specifications. If a full disclosure is not made of the existence of any other contracts or side agreements in a particular case, it would appear that the Government is misled. And it would further appear that if FHA officials had knowledge of such a side agreement calling for the expenditure of a lesser sum for the construction of the project, than stipulated in the application for FHA insurance, then such officials might well be put on their guard to give much closer supervision to the construction of the project to insure that specifications are met and to avoid shoddy construction, as well as to avoid, as nearly as possible, failure of the mortgagee to meet his obligations with consequent assumption by FHA of financial responsibility to the mortgagee.

Of course if the failure to disclose to representatives of your agency the existence of the second agreement as here would not by reason of the procedure adopted in such cases result in the concealment of material facts, because as you explained, "The determination made by the FHA as to the maximum insurable mortgage is based upon the FHA estimate of the replacement cost of the building improvements, and such estimate is not influenced by the amount of the contract executed for the construction of the improvements," then existence of a side agreement between sponsor and the contractor ceases to be material. In such

circumstances, violation of title 18, section 1001, United States Code, cannot be proved.

If under existing regulations the sponsor of any project for which FHA insurance is sought must report the existence of a contract for the construction of the project, although FHA is not interested in such information and makes no use of it, is any purpose served by the requirement? Your comments in this connection are desired for the Department's guidance in considering this and similar cases developed in the future.

As mentioned above, further investigation of the matter is being made by the FBI, the results of which when reviewed will permit the United States attorney and the Department to determine whether criminal prosecution is to be undertaken or that phase of the case closed. You will be kept informed of developments.

Respectfully,

WARREN OLNEY III,
Assistant Attorney General
(For the Attorney General).

FEDERAL HOUSING ADMINISTRATION,
OFFICE OF THE GENERAL COUNSEL,
Washington, D. C., June 25, 1953.

Re the Joseph B. Williams, Inc., Newberry, S. C.; R. E. Summers, W. R. Reed, Frank E. Jordan, Jr., Officers; James R. Carter, doing business as Jimmy Carter Construction Co., Columbia, S. C., Fraud Against the Government (your reference WO:WFD:ar/46-67-46)

The Honorable the ATTORNEY GENERAL,
Department of Justice, Washington, D. C.

SIR: Reference is made to your letter of May 19, 1953, relative to the captioned case.

Before discussing the particular inquiry presented by you we would like to correct an inadvertent error appearing in the fifth sentence of the fourth paragraph of our letter of April 30, 1953, which reads, "The initial endorsement of the mortgage loan for insurance takes place at the time the loan is closed pursuant to the outstanding commitment, and the amount of the construction contract is usually not known at the time of the closing, and if known it would be immediately prior to closing." The word "closing," which appears in two places in such sentence, should read "commitment".

In regard to the direct inquiry set forth in the penultimate paragraph of your letter, the primary purpose of requiring the submission of a contract between the owner corporation and a general contractor is to determine that there are available, before commencement of construction, sufficient funds to complete the contemplated project. It must be determined that the owner has sufficient cash on hand to meet his fixed contractual obligations, and in order to make that determination it is necessary that we be furnished a copy of the contract. Another purpose to be served by the construction contract in cases where the FHA insures advances is to provide the basis for the amount of the construction advances to be insured. Our closing requirements provide that the mortgagor set up sufficient funds to close the transaction on the basis of the FHA estimate of replacement cost or the estimate of cost based upon the amount of the construction contract, whichever is the greater.

In the comparatively rare case where the amount of the construction contract is less than the FHA estimate of construction cost, the difference between these amounts is not advanced to the mortgagor during the progress of construction. The funds based upon the larger FHA estimate will, of course, be held in escrow for the mortgagee and the cash, placed in escrow by the mortgagor over and above the amount of the FHA insured mortgage, will be advanced prior to the advance of mortgage proceeds. However, construction advances which are approved for mortgage insurance will be based upon the percentage of work completed and this percentage will be related to the amount of the construction contract. The practical effect of this procedure is that when construction has been completed, the mortgagor will have received the amount of the construction contract less the required 10-percent holdback. Thirty days after final completion the amount of the holdback will be payable together with any balance of mortgage proceeds remaining. Under our present procedures under section 207 of the National Housing Act, there is no basis for reducing the amount of t

insurable mortgage at closing by reason of the fact that the amount of the construction contract submitted at closing is less than the construction cost estimate made by FHA in processing the application for a commitment.

It may be that the Director was expressing the thought that the FHA would certainly not look with favor upon the type of arrangement which was followed in this instance, and we entirely agree with this position. We cannot, however, agree with his thought that if the FHA acquires this property it will lose more money than if the kickback arrangement had been known by the FHA prior to the initial endorsement of the note. The only reason this could happen would be on the assumption that the mortgagee would refuse to advance its funds in reliance upon our commitment so that there would have been no loan transaction in the first instance. As heretofore outlined, the maximum insurable mortgage is based upon the FHA estimate of the replacement cost of the building improvements and such estimate is not influenced by the amount of the construction contract. The fact that additional money may have been required to cover the difference between the FHA estimate of cost and the contract price would not have resulted in a reduction in the amount of the mortgage, and the mortgagee would have received the entire mortgage proceeds after completion of construction in accordance with FHA requirements.

Mr. Curt C. Mack, assistant commissioner, underwriting, located at Washington headquarters, has had this matter reviewed by personnel attached to his office; and in an effort to lend all possible assistance to the Department, he will make members of his staff available for further discussions with representatives of your office if you so desire. An appointment may be arranged by calling Mr. Mack on extension 566, or one of his assistants, Mr. Jarchow, on extension 629. We would appreciate being advised of further developments.

Very truly yours,

B. C. BOVARD, *General Counsel*

The CHAIRMAN. I think the letter speaks for itself.

Don't you have another case, or do you have a case from St. Louis of similar nature?

Mr. OLNEY. Yes, I do.

The CHAIRMAN. Do you care to give us that one?

Mr. OLNEY. I will give you a report on that one. This is on Canterbury Gardens defense housing project, St. Louis, Mo.

The CHAIRMAN. Who is the owner of that? Does it give the owner's name?

Mr. OLNEY. That is a joint venture.

The CHAIRMAN. Who are the owners?

Mr. OLNEY. They are in there, Senator.

The Department received a complaint concerning the construction of a multiple apartment project in St. Louis, Mo., known as Canterbury Gardens No. 1. Initiated by a former employee of the contractor, the Warner-Kanter Co., in the fall of 1952. It appears that this project, to be constructed by the MacDonald Construction Co., was to be financed under provisions of section 608, title VI, of the National Housing Act.

It was ascertained that an original application for mortgage insurance under section 608 was filed on January 3, 1950, in the St. Louis, Mo., office of the Federal Housing Administration by Canterbury Gardens, Inc., as mortgagor. The sponsors were listed as Joseph H. Kanter and Marvin L. Warner, doing business as Warner-Kanter Co., Birmingham, Ala., reported to be a joint venture with the MacDonald Construction, Inc. A project analysis was completed by the FHA in response to this application, but subsequently an amended application was filed on April 14, 1950, requesting a commitment of insurance on a loan of \$3,700,000.

Insofar as it could be ascertained, it appears that the difference between the first and second applications was in the specifications, which called for 20 fewer units in the later application and blueprints. This later application estimated the cost of the project would be \$4,203,315, listing the cost of construction and fees as \$3,314,225. In response to this application, at least in time, the Federal Housing Administration made a project analysis dated April 27, 1948, with consideration given to the second set of blueprints and specifications submitted.

Senator FREAR. What was that date, 1948 did you say?

Mr. OLNEY. This must be a misprint, here. It should be 1950.

This later project analysis estimated the construction cost, exclusive of land, to be \$3,866,497. The amount of the loan recommended was \$3,654,000. Of the construction cost amount, \$212,497 was considered to be fees to be paid by means other than cash.

The original commitment for insurance by the Federal Housing Administration was made to the John P. Dolan Realty Co. of St. Louis, Mo., as mortgagee and lender and later assigned on June 8, 1950, to the First National Bank of St. Louis. On the latter date, the Federal Housing Administration, pursuant to the commitment of insurance guaranteed a loan in the amount of \$3,654,000, with interest at 4 percent, made by that bank to the Canterbury Gardens No. 1, Inc.

The files of the Federal Housing Administration are reported to contain a lump-sum construction contract dated June 9, 1950, in the amount of \$3,239,915 between Warner-Kanter Co. and William MacDonald Construction, Inc., as a joint venture, contractor, and Canterbury Gardens No. 1, Inc., a corporation, owner. It is further revealed that on July 1, 1951, the Warner-Kanter Co. assigned their interest in the joint venture to the Warner-Kanter Construction Co., Inc.

During the course of the investigation, it was ascertained that a separate agreement dated June 8, 1950, had been entered into by MacDonald Construction, Inc., as contractor and Warner-Kanter as sponsors by the terms of which the MacDonald Construction, Inc., guaranteed that the entire cost of completing all the work on the project would not exceed \$3,139,915. It should be noted that the construction cost set forth here is \$100,000 less than the construction contract which was disclosed to the Federal Housing Administration dated June 9, 1950. It was provided in this separate agreement that any construction cost exceeding the stated figure was to be assumed by the contractor and further that if the actual construction costs were less than the stated \$3,139,915, the first \$35,000 of that difference would accrue to Warner-Kanter and any additional cost differences would be divided in the proportion 85 percent to Warner-Kanter and 15 percent to MacDonald Construction, Inc. According to the advice of the FHA officials, this latter agreement was apparently never brought to the attention of the Federal Housing Administration in the course of the insurance commitment transactions.

It should be noted at this time that the Canterbury Gardens No. 1, Inc., was formed under the laws of the State of Missouri on June 5, 1950, with \$10,000 paid-in capital stock. The minutes of the corporate meeting dated June 7, 1950, include a resolution to purchase real estate for the No. 1 project at a cost of \$125,000. The minutes of the meeting dated June 8, 1950, disclose that William Mac Donald had subscribed for 1,250 class B stock at \$100 per share, totaling \$125,000.

Mr. A. S. Brooks, executive assistant, St. Louis regional office of the Federal Housing Administration, in discussing the procedure for the issuance of the FHA commitment of insurance in this and similar cases under section 608, advised that the blueprints and specifications submitted by the sponsor are analyzed in the process of arriving at an estimated total replacement cost "as of December 31, 1947." Following this analysis, Federal Housing Administration prepares and issues a project analysis to be used as a basis for the granting of insurance commitments. This project analysis, according to Mr. Brooks and his associates, is made by the architects and appraisers in the employ of the Federal Housing Administration, and no consideration is given to the estimated requirements of construction costs as set forth by the sponsor in his application for the loan commitment. In addition, Mr. Brooks and the other local FHA officials stated that the Federal Housing Administration has no interest or concern in what the actual costs of the projects are or what division of profits may be made by the contractor in a particular case, including the instant case.

The CHAIRMAN. That seems to be a pattern that is going through this whole business, that they don't care what it costs to build; they just are interested in the mortgage amount.

Mr. OLNEY. And that, Senator, is why it is impossible for the Department of Justice to prosecute on these section 608 cases, because we cannot prove that the Federal Government was defrauded, in the

face of FHA's own statement that they never relied on these false statements, so they are in the position of saying that they weren't deceived or defrauded; they were just giving this stuff away.

The CHAIRMAN. What was the difference between the actual cost that MacDonald Construction, Inc., agreed to build the project for, and the mortgage?

Mr. OLNEY. This was \$100,000 exactly—

Senator FREAR. I can't quite make those figures jibe for some reason. You gave us \$3,213,915, and then you gave us \$3,139,915. Can you distinguish the difference in that, or make the difference of \$100,000?

Mr. OLNEY. The difference between the amounts of the two contracts of construction—

The CHAIRMAN. What was the amount of the mortgage?

Mr. OLNEY. There was one contract of construction which these people filed with FHA, and then on the same day, they executed a secret contract for \$100,000 less.

Senator FREAR. Now, which of those two figures is it? Is it 213 or 139, in the thousand-dollar column?

The CHAIRMAN. What was the amount of the ultimate mortgage?

Mr. COSSACK. \$3,654,000.

Mr. OLNEY. \$3,654,000.

The CHAIRMAN. What was the amount of the cost?

Mr. COSSACK. The figures are \$3,239,915; the other figure, the secret agreement, is \$3,139,950.

The CHAIRMAN. What was the amount of the mortgage?

Mr. COSSACK. The mortgage was issued for—

Mr. OLNEY. \$3,654,000.

The CHAIRMAN. In other words, the mortgage was about \$400,000 more than the cost.

Mr. OLNEY. More than the amount provided in the first contract, the one that was submitted, and the secret contract was for an even \$100,000 less.

The CHAIRMAN. Go ahead and finish reading the letter.

Mr. OLNEY. "Mr. Brooks explained that the amount of profit earned by the MacDonald Construction Co., Inc., on this project—

The CHAIRMAN. Now, Mr. Brooks is the FHA man?

Mr. OLNEY. That is right.

Mr. Brooks explained that the amount of profit earned by the MacDonald Construction Co., Inc., on this project, or the division of profits between the joint ventures, i. e., Warner-Kanter would have no bearing on the amount of the loan which the FHA committed itself to insure. This explanation by Mr. Brooks was concurred in by Hugh P. Albrecht, FHA, St. Louis manager. Both of them stated they were acquainted with the capabilities of the MacDonald Construction, Inc., and were satisfied that this company could complete the contract in accordance with specifications. In addition, during the entire course of the construction, FHA inspectors were reported to have been at the job site to insure that specifications were complied with and that material of the quality required by the specifications was supplied. Neither Messrs. Albrecht nor Brooks admitted knowledge of the existence of a second contract between MacDonald Construction, Inc., and Warner-Kanter of the construction of this job.

Robert A. Newsham, chief
FHA St. Louis office
FHA-prepared figure
Act. According to
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user, and later chief underwriter in the
unit of loan commitment is based on
as set forth in the National Housing
and the estimated amount
ed in escrow by the

sponsor. This, he suggested, would have the effect of eliminating overestimating of construction costs by the sponsor. Analysis of this project was completed in the FHA St. Louis office without interference or instructions from Washington headquarters, although headquarters reviewed the file and approved same after a loan commitment had been made in the regional office.

George F. Voss, employed as an architect by FHA in the St. Louis office at the time this project was being processed, advised that he had participated in originally estimating the cost of the project and that it is his recollection the costs were refigured on two occasions thereafter by FHA personnel. He did not know the purpose of this, but the action was taken at the direction of the chief architect, a Mr. Pleitsch. Mr. Voss further recalled that as a result of refiguring the project costs, FHA architects were ordered to increase it \$250,000. Mr. Pleitsch when interviewed, stated that there was no refiguring of costs on this project other than as reflected in the project analysis based on the sponsor's application which took into consideration possible changes in plans and specifications. It should be noted that the plans were actually changed.

Pleitsch further claimed there were no instructions, either from inside the FHA office or from outside that office, to arbitrarily increase estimated costs on this project. He advised these figures were based on December 31, 1947, replacement figures obtained independently from sources of supply by FHA personnel.

Mr. R. E. MacDonald, president of MacDonald Construction, Inc., 1310 South Grand Boulevard, admitted the existence of a separate contract between his company and Warner-Kanter, the purpose of which he asserted was to set forth the responsibility each was to assume in furtherance of the joint venture and to provide for division of the profits earned. MacDonald stated that his company advanced money for the purchase of land for this project, as well as a second project on which FHA loan insurance was procured, identified as Canterbury Gardens No. 2, Inc., the amount of the advance for both parcels of property amounting to \$245,000.

Mr. Albrecht, Mr. Brooks, and their associates all stated that they had no knowledge of any separate contract for the construction other than the construction contracts filed in the St. Louis office of the FHA. Mr. Albrecht stated that this agreement was merely a contract for the division of profits and, as indicated previously, was no concern to the agency. He advised, however, that had this agreement come to the attention of the FHA office in St. Louis, they would probably have referred the matter to Washington for a legal opinion, although on a local level, it was their opinion that the existence of a separate agreement, if known, would not have affected the handling of the loan commitment.

The FHA file is reported to contain a letter from Walter L. Greene, Assistant Commissioner, FHA, to the New York State Employees Retirement System, dated September 25, 1952, a copy of which is directed to Mr. Albrecht in the St. Louis office. This letter is reported to have stated concerning the instant commitment of insurance that it was "a perfectly normal and natural procedure and it does not indicate there is anything wrong in the way in which the cases were handled." This letter also states the standard for the amount of commitment to be issued under section 608 as being based upon an estimate of the total replacement cost of the property, including land value, not to exceed the replacement cost as of December 31, 1947.

The FHA files are also reported to contain a letter dated October 3, 1952, from Mr. Albrecht to Assistant Commissioner Clyde A. Powell relating the circumstances of this commitment of insurance and stating that the St. Louis office had no knowledge of the second separate construction contract.

Based on the testimony developed and the procedure and standards adopted by the Federal Housing Administration in processing the application; the Criminal Division of the Department of Justice and the office of the United States Attorney concluded that successful criminal prosecution could not be had under these facts, which indicated that the Federal Housing Administration was not induced into action by the nondisclosure and apparent false statement.

This matter was referred to the Tax Division of the Department of Justice in April 1953 and consideration was given to the handling of the surplus of approximately \$165,000 existing at the time of final settlement on the construction of this project. The income tax phase of this matter was referred to the Bureau of Internal Revenue, now the Internal Revenue Service, in May 1953.

And that, I understand, is the occasion when the Internal Revenue Service became interested in the manner in which these windfalls were

being reported. But I think this case clearly illustrates why the committee should not expect criminal prosecution of these section 608 cases.

The CHAIRMAN. Because you have cited two examples there where FHA refused to cooperate, or just what—tell us as briefly as you can why, in those two cases, you feel you can't criminally prosecute?

Mr. OLNEY. It is not failure to cooperate, but because of what they say is the general policy. To rest a criminal case on one of these section 608 things, we have to show that the promoter of this thing filed statements in connection with his application which are false. We not only have to show they are false, we have to show that they resulted in some action being taken, and reliance upon them by the Government.

In other words, we have to show that they were defrauded. FHA says, "We weren't defrauded. We paid no attention to those things. We went ahead on our figures and that is of no importance."

Here are false statements with false names submitted as a part of the official transactions, but the case is torpedoed by the testimony of the agency, itself, that no reliance is placed upon those statements.

The CHAIRMAN. It is unbelievable that the FHA would take that position, is it not?

Mr. OLNEY. Well—

The CHAIRMAN. Mr. Powell, the gentleman who refused to testify the other day, has been the head of that department since 1934. I want the record to show that.

Senator FREAR. Do you have any cases in Delaware?

Mr. OLNEY. I don't know whether we do or not.

Senator FREAR. Is that an embarrassing question? It won't embarrass me, I can assure you.

Mr. OLNEY. Mr. Cossack tells me that he is not aware of any section 608 cases, although we have some prefabricated housing cases in Delaware. I can't enlighten you on that. I didn't come prepared to discuss those.

The CHAIRMAN. Are there any further questions of Mr. Olney—had you finished, Mr. Olney?

Mr. OLNEY. Yes, sir; I had.

The CHAIRMAN. If there are no further questions, we will recess—Mr. Hollyday, do you still want to make a statement?

Mr. HOLLYDAY. Yes, sir; very much so.

The CHAIRMAN. How long will it take?

Mr. HOLLYDAY. I would like to take about 6 minutes in the light of what I have just heard, and about 7 more minutes in the light of what I heard the other day. Give me about 13 minutes.

The CHAIRMAN. We will recess until 2 o'clock, at which time we will hear Mr. Hollyday, after which we will then recess until next Wednesday or Thursday, at which time we are going to hear more Government witnesses, Mr. Greene and Mr. Perce and others. We are going to have to get deeper into this matter again next week. We will recess until 2 o'clock.

(Whereupon at 12:30 p. m., the committee recessed, to reconvene at 2 p. m. the same day.)

AFTERNOON SESSION

CHAIRMAN. The committee will please come to order. I would like to place into the record a news item in the Washington News, Friday, April 23, headlined "Shirley-Duke Apartments" as "Windfall," in which they list certain information which I will place in the record at this time and to say that this nation did not come from this committee, or any member of this committee.

However, the figures given seem to correspond to the same records we do have in our possession but it was not given out by this committee, or any member of the staff.

The article referred to follows:)

[Washington Daily News, April 23, 1954]

BUILDERS SAY PROFITS WERE "PROPER"—SHIRLEY-DUKE APARTMENTS LISTED AS "WINDFALL"

By Jack Steele, Scripps-Howard Staff Writer

Shirley-Duke Apartments, Inc., in Alexandria was identified today as one of the so-called "608" housing projects built with FHA-guaranteed loans on which sponsors allegedly made a huge "windfall" profit.

National Revenue Service records indicate that the builders of the Shirley-Duke project paid dividends to themselves totaling \$2,084,819 after it was completed in 1953 with money obtained under an FHA-insured loan. Such projects have been called "windfalls" in the current FHA investigation.

Sam W. Hutman, one of the partners in the project, emphatically denied, however, that its sponsors had made any such big "windfall" on the venture.

"The figure does not reflect the true profit made on the Shirley-Duke project," he asserted. "It is exaggerated and distorted."

COLLECTING RECORDS

Hutman said the owners of the project were now getting together figures to show actual profits and would be ready to release them in about 2 weeks.

Hutman and some of his partners also vigorously asserted that nothing "improper" or "improper" had been done in connection with the Shirley-Duke project.

Shirley-Duke Apartments, Inc., is the first "608" project on which a "windfall" profit is to be identified in the Washington area. A garden-type project near the intersection of Shirley Highway and Duke street, it has 2,112 1- and 2-bedroom apartments and houses some 7,000 persons.

Records show that Government-insured loans totaling \$13,846,000 were made for the 6 separate units of the Shirley-Duke project.

National Revenue Service figures place the total cost of the land and buildings at \$9,639,000.

The "windfall" dividends of \$2,084,819 are slightly less than the difference between these loan and cost figures.

Other major partners in the project in addition to Mr. Hutman are listed in the records as:

J. Preston, Silver Spring building contractor.

Sam Gordon, Jr., Alexandria builder.

Sam Bornstein, Silver Spring plumber.

Sonnenblick, who could not be identified.

Sam O. Black, also unidentified.

Hutman identified Carl Budwesky, former city manager of Alexandria, as a partner for the project.

OTHERS UNNAMED

He said there were a number of other stockholders, but declined to name them. Mr. Hutman discussed the Shirley-Duke project at some length, after he had been asked to state his side of the case and explain how "608" projects were financed and built.

He conceded that sponsors of the project had made substantial profits, but insisted much of these already had been plowed back into the venture.

As an example, he said the builders had spent \$750,000 to build a shopping center on which not one penny of profit had yet been realized. This center was vital to the success of the project, but was not eligible for FHA financing.

The builders had to spend their own money also to build access roads to the project, to subsidize bus transportation for the tenants and for similar items, he said.

Such expense could not be included in the "costs" allowed by FHA and Internal Revenue Service, he noted.

Mr. Hutman emphasized that he did not want to get into an argument with either Administration or Senate investigators of the housing program.

But many things, he said, have a direct bearing on allegations made in the course of the FHA investigation:

He said the "spread" between the FHA estimate of the cost of the project (the so-called appraisal which was the basis for the loans) and the costs could not have been anticipated by either FHA or the builders.

He explained that, after the project was started in July 1949, building costs steadily declined and labor costs also went down. Weather and other factors also were favorable, so the project was completed faster than anticipated. All these things cut the costs.

He specifically denied any "collusion" with FHA officials. He said the Shirley-Duke builders had not paid "one red cent" or done anything else to influence FHA officials.

He stressed that Shirley-Duke is a true low-rental project. (Charges have been made that "windfalls" boosted rents.) Rents on 1-bedroom apartments start at \$66 a month and the top rent for 2-bedroom units is \$77 a month, he said.

He said the Shirley-Duke sponsors were not "speculators" who built the project and then pulled out. Its builders still own and operate it and plan to continue to do so, he said, adding: "Why should we sell something that is making money for us?"

He said the Shirley-Duke builders had "risked" much of their own capital in the venture.

"My wife and I put up every cent we had," he said. "If the project had not been a success, I wouldn't have a dime left."

Mr. Hutman said he was a graduate engineer who had been active in the building business around Washington since 1935.

"I love to build," he added. "I get my pleasure out of putting up successful projects and I think Shirley-Duke is one of the most successful in this area."

OTHERS UNAVAILABLE

Other partners in the Shirley-Duke project either could not be reached or declined to discuss it.

Mr. Bornstein is in Florida. His son and partner, Alfred Bornstein, after talking with his associate, said: "We have decided to have no comment whatever." Mr. Preston took the same position.

The Shirley-Duke project was identified by comparing loan figures made public by FHA with reports on "windfall" profits made to Congress by the IRS.

Although the Internal Revenue reports do not include the names of the projects, identical loan figures appearing in the FHA and IRS reports made possible the identification.

The dividends

Following table, compiled from official records, shows the amount of loans, building costs, and "windfall" dividends reported for the six units of the Duke Apartments.

Loan	Land	Cost	Dividends
\$2,674,000	\$44,195	\$2,152,678	\$494,220
2,598,000	49,424	2,212,526	316,560
1,840,000	34,534	1,504,609	281,433
2,390,000	39,366	1,834,041	412,409
2,288,000	38,657	1,896,047	337,773
2,056,000	34,215	1,769,347	242,424
13,846,000	240,391	11,469,248	2,084,819

CHAIRMAN. Our first witness will be Mr. Hollyday. Mr. Hollyday.

STATEMENT OF GUY T. O. HOLLYDAY, LANGLEY, VA.—Resumed

CHAIRMAN. You were sworn in the other day, were you not?

HOLLYDAY. Yes, sir, I was.

CHAIRMAN. You want to make a statement, I believe.

HOLLYDAY. Yes, sir, I do.

CHAIRMAN. Suppose you proceed in your own way.

HOLLYDAY. Thank you, Senator, and I will make it brief.

I was not aware until this morning that the Department of Justice and the FHA considered the individual borrower of incidental consequence. I should have liked to have had the opportunity to clarify the position with respect to that point of view.

When they presented, it seems to me, a clear and convincing reason for the great need of the restrictions and controls that I put into effect on November 1, summarized as follows:

Require that the lending institutions must certify that they have a reliable dealer to be reliable, financially responsible, and qualified to do satisfactory work to be financed and to extend proper service to the customer.

Require that the protection of the customer.

Require that the lending institution maintain a loan record of experience with its approved dealers that will reflect any common or irregularities.

And I think this is quite important, Mr. Chairman—Require the lending institution deliver a notice to the borrower of the terms of his credit application, at least 6 calendar days prior to the issuing of the note proceeds to the dealer. The purpose of this is to inform the homeowner of the basic terms of the proceeding and to give him an opportunity to contact the lending institution if he has any questions regarding the transaction. That is very greatly to the benefit of the homeowner.

Make a loan ineligible for insurance if it has been represented by the borrower that he will receive a cash bonus or commission, or sales.

5. Require the dealer to certify in his completion certificate that if any of the representations appearing on the completion certificate should prove incorrect, the dealer will promptly repurchase the note.

There are four other items along that same line which I will not read, but I do hope that the committee will realize that in promulgating those regulations, the FHA was greatly concerned with the protection of the consumer-borrower.

Mr. Chairman, I very much appreciate the opportunity to appear before the committee. I asked that I be given this opportunity to appear, again, as it was not until Tuesday's testimony before the committee, that I heard the precise reasons for my resignation.

There are three points on which I would like to comment very briefly.

1. There has been considerable discussion in the press and before this committee about a particular FHA employee. Reports of gambling and of receiving a \$10,000 payment from a builder have been referred to. All of these reports relate to the same man. I am most anxious for the record to be clear on my handling of this matter, and for the committee to be relieved of any misunderstandings regarding it.

(a) The reports regarding this man, which precipitated action on my part were not referred to me by any other Government agency.

(b) My concern was so great that entirely on my own initiative I had our chief investigator make extensive investigations to develop the facts. These investigations failed to produce supporting evidence which would have justified formal charges.

(c) But the reports were so serious that I felt the matter could not be dropped and, therefore, on December 18, accompanied by my Associate General Counsel and my chief investigator, I personally placed the case in the hands of the Department of Justice.

(d) Although there has as yet been no report to me on the investigation, I feel sure it is continuing. However, I became convinced that this man could not be an effective member of my team and, therefore, the 1st week in January I requested his resignation.

Senator FREAR. Mr. Hollyday, on that December 18, 1953, and this is January 1952, I assume. I mean 1954.

Mr. HOLLYDAY. 1954; yes, sir.

Gentlemen, perhaps someone else would have acted more quickly, or more slowly, or in some respects differently than I, but can it possibly be said that I failed to act, and act decisively—

The CHAIRMAN. You say:

I became convinced that this man could not be an effective member of my team and therefore the 1st week in January I requested his resignation.

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. Did he resign at that time?

Mr. HOLLYDAY. No, sir; he requested an opportunity to find a job and asked if I would give him until the 1st of April to find a job, and being a veteran it seemed to me that was proper for me to do, and I acquiesced in his request.

The CHAIRMAN. How long had this gentleman been with the FHA?

Mr. HOLLYDAY. He had been there a very long time, sir, indeed.

The CHAIRMAN. A very long time?

Mr. HOLLYDAY. Yes, sir.

it possibly be said that I failed to act, and act decisively, as to this man?

possible that the committee may have been left with the impression that I was urged on a number of occasions to make a investigation of the section 608 program, and that I failed to do so. This is a serious misunderstanding. Consider with me for these circumstances:

1. FHA had an investigating staff inadequate, as has been pointed out, for the investigating responsibilities already assigned

2. FHA had no way of finding out through its own sources the cost of a section 608 job. This information is only available to the Bureau of Internal Revenue.

3. There were thousands of section 608 projects.

4. To make an effective investigation of the section 608 program under these circumstances would have been an immense assignment. 5. And that this committee has requested \$250,000 for that purpose.

AIRMAN. Will you yield a moment there?

LYDAY. Certainly.

AIRMAN. You say:

"To make an effective investigation of the section 608 program under these circumstances would have been an immense assignment."

There is no question about that with regard to section 608's because it was passed in 1950 and the harm has already been done. But it is not quite clear to me—and I presume one reason why I sort of hesitated to this is because we held hearings on new legislation and we have passed new legislation. Why did you not, as head of the committee, knowing that section 213 and other titles were susceptible to sort of thing, ask us to tighten the law, or call our attention to it? You testified with respect to this legislation?

LYDAY. I wish you would explain to me what you mean by "sort of thing."

AIRMAN. Well, susceptible to mortgaging-out, and getting away from their mortgages than the cost, and all the alleged irregularities that have occurred.

LYDAY. No recommendation or suggestion was made to me that mortgaging-out was illegal or that I should start a section 608 program.

AIRMAN. Then, are you saying that you, being Administrator, didn't have any knowledge of the alleged irregularities at the hearing so much about in this investigation?

LYDAY. The irregularities that I heard about and that came to my office to get our assistance with respect to the data related to a tax case. He got that assistance and thanked us for it.

AIRMAN. Then, you weren't aware, as the FHA Commissioner, of any mortgaging-out, or irregularities such as we have been talking about here for the past week?

LYDAY. I was advised by this gentleman that there was exorbitant mortgaging out and that is what he was working on. Now, with respect to irregularities, he made no statement to me at all, Senator, of any kind.

The CHAIRMAN. Were you aware of these thousands and thousands of cases in Mr. Olney's testimony here this morning in respect to title I?

Mr. HOLLYDAY. The reason, Senator, that I went to work and put into effect corrections which have been accepted by the trade and the President's Advisory Committee, were the very reasons that were so clearly set forth by Mr. Olney, and which the trade believes, and the President's Advisory Committee believes will be effective, that went into effect December 1. Yes, sir, that was one of my very first concerns and I worked on it.

The CHAIRMAN. Perhaps we are a little sensitive on this committee, and I understand the House committee feels just a little sensitive about the same thing, that none of you gentlemen in presenting this bill and in testifying brought any of these matters to our attention. Rather it was the opposite. For example, in title I you recommended that we increase the limit from \$2,500 to \$3,000, and extend the terms. And then we put in some new sections, 220 and 221, where we were going to guarantee 100 percent of the mortgage and give 40 years. Yet we didn't receive any testimony from any of the industry witnesses or the governmental witnesses, or FHA witnesses, or anybody else. This goes for all of you—I am talking about Mr. Cole, yourself, and everybody else, we just didn't hear a word about anything. The goose was hanging high, and "let's make it \$3,000 instead of \$2,500. Let's extend the terms on title I, let's go to 40 years with 100 percent advance rather than 90," without a single murmur of the alleged irregularities and problems and troubles that we now find that evidently you—meaning FHA—and all the housing people were encountering.

Mr. HOLLYDAY. Senator, I think I had a perfect right to assume that the Senate was familiar with the advisory committee's report and the statement of the President of the United States.

The CHAIRMAN. I presume so.

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. It is just amazing to me that all these things could have happened and did happen, evidently, and yet when industry witnesses and everybody else came before this committee and the House committee, they just didn't say a word about it. They didn't ask us to tighten up a law, and didn't have a word about it. I mean it is just amazing to me. I am not blaming any specific person. We feel rather sensitive about it. Had we passed this present bill and found later that these things could happen under it that evidently have happened to the old bill, we would be subject, I think, to considerable criticism.

Mr. HOLLYDAY. Well, Senator, you have my statement which was corroborated by the Administrator, that the law with regard to title I didn't need changing.

The CHAIRMAN. You still don't think it needs changing?

Mr. HOLLYDAY. Aw, now. Senator, I think any law can be amended, but I feel, as Mr. Olney himself said this morning, that the problem was in the administration and not in the law. I think I am quoting him correctly.

The CHAIRMAN. Yes, I think so.

Well, this gentleman—in January, this said gentleman, you asked that he resign. Is that correct?

Mr. HOLLYDAY. Yes, sir. He said he would.

The CHAIRMAN. But that he preferred to leave April 1.

Mr. HOLLYDAY. He wanted to get a job and being a veteran I felt at seemed wise.

The CHAIRMAN. I found on Sunday, April 11, you issued a press release and said:

The resignation of Clyde L. Powell, key official of the Federal Housing Administration, was announced today by FHA Commissioner Guy T. O. Hollyday. Accepting Mr. Powell's resignation, Commissioner Hollyday expressed regret and said, "Mr. Powell has achieved a standing in the multifamily housing field"—

at is section 608—

that is recognized from coast to coast."

Mr. HOLLYDAY. That is true.

The CHAIRMAN. You further go on to say that—

During Government service the end of this month and entering private business he will be associated with a large-scale housing development in New York City. He has been Assistant Commissioner in charge of multifamily housing since multifamily housing first became an active part of the FHA program in 1936. Prior to his association with the Federal Housing Administration, Mr. Powell was in the mortgage business in his native St. Louis, Mo. He has long been recognized as an authority in the field of mortgage lending and in the development of multifamily housing. Under Mr. Powell's direction the FHA multifamily housing program has insured mortgages on 8,200 projects, adding a total of 643 family units to the Nation's supply of permanent rental housing, with loans aggregating \$1,675 million. The majority of these projects have units renting in the medium-priced range. They have provided comfortable living accommodations and proved to be worthwhile investment for mortgage lenders. No announcement of a successor to Mr. Powell has been made.

Mr. HOLLYDAY. That was the customary announcement, Senator. I get the implication that I shouldn't have done that.

The CHAIRMAN. I didn't say that.

Mr. HOLLYDAY. All right, sir.

The CHAIRMAN. I just wanted to know if you did issue that release.

Mr. HOLLYDAY. Yes, sir; that is mine.

The CHAIRMAN. That was Sunday, April 11. That was the day before the President took action in this matter, was it not?

Mr. HOLLYDAY. The date of that release, you would know—I would like to say it was brought to my attention several days, of course, before the release.

The CHAIRMAN. The release says for "Sunday, April 11."

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. And the President, of course, issued his Executive order—I think they asked for your resignation on Monday, April 12, that correct?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. And this was issued the day before?

Mr. HOLLYDAY. It was released the day before, yes, sir.

The CHAIRMAN. Were you in conference the previous week with Mr. DeLoach and people at the White House and others, on this whole matter the housing problem?

Mr. HOLLYDAY. No, sir.

The CHAIRMAN. You were not?

Mr. HOLLYDAY. No, sir.

The CHAIRMAN. You didn't sit in on any meetings?

Mr. HOLLYDAY. No, sir.

The CHAIRMAN. Nobody said a word to you about it?

Mr. HOLLYDAY. I knew nothing about it at all, Senator. My last visit to the White House was several weeks prior to this, in which I discussed with Governor Adams and Mr. Cole a matter of reorganization of agencies, and all of this that we are now discussing, sir, is new to me.

The CHAIRMAN. Thank you, sir, you may proceed.

Mr. HOLLYDAY. The FHA has an investigating staff inadequate, as has been pointed out for the investigating responsibilities already assigned to it.

The FHA has no way of finding out through its own sources the actual cost of a section 608 job. This information is only available to the builder and to the Internal Revenue Service.

There were thousands of section 608 projects.

I am sorry, Senator, I read that over again.

To undertake an effective investigation of the section 608 program under these circumstances would have been an immense assignment. I understand that this committee has requested \$250,000 for that purpose and has indicated it may take a year to do the job. I understand Mr. Cole has also requested \$100,000. And your investigation, Mr. Chairman, will be with the benefit of free access to Internal Revenue files on the individual cases.

It is inconceivable that I would have agreed to make such an investigation without first resolving with Mr. Cole the ways and means of conducting it. Yet we had no such discussions.

Mr. Cole and I were both concerned about an investigation of the tax implications of section 608. We both wanted the FHA to give all possible assistance to it, and we discussed it several times. Our office gave that assistance to the best of our ability and the investigator expressed his appreciation for it.

The CHAIRMAN. Will you yield just a moment?

Mr. HOLLYDAY. Yes, sir.

The CHAIRMAN. I can understand how you wouldn't know this because you were made Commissioner just a year ago, but you stated there was no way FHA could get the cost information on these section 608 projects.

Mr. HOLLYDAY. Without a builder giving us opportunity to do so.

The CHAIRMAN. Let me read the law. In the charter of these corporations it is a part of the law:

The request of the Commissioner or of the holder of the majority of the shares of the preferred stock—

and I think we'll find as we go along that the Government held the preferred stock in these corporations; in fact we can find—possibly you can tell us at the moment: Didn't Mr. Powell hold the preferred stock for the Government in these projects?

Mr. HOLLYDAY. I don't know, sir, but an official of FHA in each case did.

The CHAIRMAN. Do you know which official does hold the preferred stock in these section 608 projects?

Mr. HOLLYDAY. No, sir; but I assume it would be under the control of by virtue of authority given him by the Commissioner.

The CHAIRMAN. I see Mr. Greene over there.

Mr. Greene, who held the preferred stock in these corporations?

Mr. GREENE. It was held in the name of the Commissioner.

Mr. PERCE. Held in the name of the Federal Housing Administration.

Mr. GREENE. It is the same thing.

The CHAIRMAN. It says "request of the Commissioner or a holder of the majority of the preferred stock."

Well, that 100 shares which was the only preferred stock in these corporations was held by your agency.

the corporation being given—

that is these section 608 fellows—

specific answers to questions upon which information is desired from time to time, relative to the income, assets, liabilities, contracts, operations and condition of the property, and the status of the insured mortgage, and any other information with respect to the corporation or its property which may be requested.

That is about as broad as you can write language. Which means right now, if I understand language, that all the Housing Administrator would have to do would be to write to any section 608 project and say, "I want your total cost of your project, I want your income, I want your this, this, this, this, and this."

Mr. HOLLYDAY. Are those section 207 or 608 loans?

The CHAIRMAN. They are section 608.

Mr. HOLLYDAY. I believe I have no right to demand to see the income of any man, and that nobody has the right to do that except by Presidential order of the United States.

The CHAIRMAN. Let's read it again.

This is at the request of the Commissioner, that was you. "Or the holder of the majority of the shares of preferred stock."

That likewise was you. You were both of those. You were the commissioner and as has just been testified, you held all the preferred stock.

The corporation—

that is any corporation that had a section 608—

shall give specific answers to questions upon which information is desired, from time to time, relative to the income, assets, liabilities, contracts, operation and condition of the property, and status of the insured mortgage, and any other information with respect to the corporation or its property which may be requested.

I think FHA right now can write a letter to every section 608 holder and get any and all information they want.

Here is another one:

The corporation, its property, equipment, buildings, plans, offices, apparatus, records, books, contracts, records, documents, and other papers shall be subject to examination and inspection at any reasonable time by the Commissioner. The corporation shall keep full and complete records of all corporate meetings of directors and stockholders, shall keep complete, orderly, and accurate books of account and shall also keep copies of all written contracts or other instruments which affect it or any of its property, all or any of which may be subject to inspection and examination by the Commissioner or his duly authorized agent.

Now, that Commissioner there was you.

As I said yesterday, you know, this housing business is big and complex. We are learning a lot about it as a result of these investigations.

Here is another one:

The corporation shall furnish the Commissioner within 60 days following the end of each fiscal year a complete annual financial report.

So I can't agree with you that you don't have the right, or the Commissioner doesn't have the right.

Mr. HOLLYDAY. On what you have said to me, I think I have to agree with you.

The CHAIRMAN. I think that's correct. This committee may well ask for all that information, either in our own name, or have the new FHA Commissioner do it, and get all that information in. He has the right to do it. There is no question about that. I don't think he could take the position that he didn't have the right to get all this information.

Another thing that hasn't been—maybe you can help on this item that we would like to know about, and that is, these properties are being transferred; are being sold. For example, I have a case in mind at the moment, my attention has just been called to it. You can't sell one of these section 608 projects without approval of the Commissioner. Isn't that true?

Mr. HOLLYDAY. I would assume that would be true.

The CHAIRMAN. If I have been reading the rules and regulations properly they can't declare a dividend without the approval of FHA. Is that correct?

Mr. HOLLYDAY. I would assume that's correct, certainly.

The CHAIRMAN. Did FHA, then—on this one I just put into the record, that was in the newspaper, the one over in Virginia—did they get approval of FHA, to declare those big dividends?

Mr. HOLLYDAY. They are supposed to send us the reports that you referred to.

The CHAIRMAN. Aren't they supposed to get approval?

Mr. HOLLYDAY. I don't know, but I would assume so.

The CHAIRMAN. Is that true, Mr. Greene?

Mr. GREENE. No, Senator; they are not, not in section 608. Section 207 was a limited dividend corporation, section 608 was not.

The CHAIRMAN. I think you will find they had to get it through the charter that you required they incorporate under. We'll get into that. I think you will find that they did have to do it under the charter.

In any event, from what I just read to you a moment ago, do you agree, Mr. Greene, that they had to get permission to sell the corporation?

Mr. GREENE. Yes, sir.

The CHAIRMAN. They had to get permission to sell the corporation.

Mr. GREENE. They had to get permission to sell the real estate.

The CHAIRMAN. That is what I mean, the property.

Mr. GREENE. They could sell the stock in the corporation.

The CHAIRMAN. They had to get permission to sell the property.

Now, answer this: In every instance did you hold, or did FHA hold, \$100 worth of preferred stock?

Mr. GREENE. Yes, sir.

The CHAIRMAN. In every instance?

Mr. GREENE. Excuse me a moment.

Mr. PERCE. At one time, corporation mortgages if less than \$200,000, we did not hold any stock. We changed that.

The CHAIRMAN. Everything over \$200,000 you did hold the preferred stock?

Mr. PERCE. And, after that date, all of them.

The CHAIRMAN. Then the statement I just made a moment ago, under the charter which we have here, they could not declare dividends?

Mr. PERCE. They could declare dividends out of earned surplus.

The CHAIRMAN. I hold one in my hand here in which they could not. It was given to us as a pattern.

Mr. PERCE. I would have to see it.

The CHAIRMAN. We'll get into that later.

Senator PAYNE. You say, "It is inconceivable that I would have agreed to make such an investigation without first resolving with Mr. Cole the ways and means of conducting it." Yet, you had no such discussion. Isn't it true that on August 13, 1953, you were requested to immediately investigate section 608's in the New York office? Do you recall whether that was true, or not? You were requested by Mr. Cole on August 13, 1953, to immediately investigate the section 608 situation in the New York office?

Mr. HOLLYDAY. No, sir. I had realized that Mr. Cole and I had talked about the tax situation a few days before, around August 6 or 7, with regard to what has now developed, in the mortgaging out. I frankly had endeavored to give the Internal Revenue Service representative service, and phoned the New York office, but with regard to making the section 608 investigation, I did not do it.

The CHAIRMAN. Do you recall whether you were requested by Mr. Cole?

Mr. HOLLYDAY. No, but if Mr. Cole says I did, I would agree to that without any hesitation whatsoever.

Senator PAYNE. Can you recall at all either going to New York or having any people directly responsible to you go to New York to investigate the situation there?

Mr. HOLLYDAY. Not on the section 608, but in connection with this other reference that I have just mentioned, with regard to an individual. I did send our investigator there to New York in that connection.

Senator PAYNE. But, that was not as a result of the conference that you had that Mr. Cole reports?

Mr. HOLLYDAY. I think not. I am not sure, but I think not.

I do not know what may have been on Mr. Cole's mind, nor what he intended to communicate to me, but I can state most emphatically that if he intended for the FHA to make a general investigation of section 608, he failed to register that intention with me. There cannot have been negligence on my part with respect to such an investigation because the only investigation we discussed was the one being made by the Internal Revenue Service.

3. The committee was presented, on Tuesday, with a detailed list of instances in which reports were made to the FHA but on which, it is alleged, the FHA failed to take action. I cannot reply to the committee on each of these instances as I do not have available to me either the files on the cases or the personnel who would have be

involved, but I can say to the committee that there was an established routine for handling all complaints. Thousands of complaints were received over a period of years and to the limit of the facilities available in the FHA, they were acted upon. Under FHA's established investigating procedure, more than 2,000 home-repair companies and individuals were blacklisted and hundreds of cases were referred to the Department of Justice for criminal action. If there was any substantial breakdown in FHA's investigating procedure, it was not made known to me, and if it had been, of course, I would have taken all possible action to correct it.

Do you gentlemen think it is likely that I could have employed an independent management firm to review and sharpen up FHA operations; have brought up to date 400,000 unprocessed title I loans; have, in the language of a prominent trade publication, "moved decisively to stamp out racketeering in the title I repair program" through new regulations and procedures; won the approval of the President's Advisory Committee on Housing and the applause of the Housing and Home Finance Administrator for my action in doing so, and yet have closed my eyes and refused to act with respect to a known breakdown in FHA's investigating procedure?

In order that this committee may learn more precisely what the difficulties may be in FHA's investigating procedure, I urge once again, as I have twice before, that you call before the committee the Associate General Counsel of FHA, who is in direct charge of investigations. His name is Howard Murphy. He is an extremely able man, and he can give this committee some answers which may be useful and important to you.

Frankly, gentlemen, if the reasons given to this committee are the only reasons my resignation was requested, I feel refreshed and reassured. My only regret is that I was not presented with these charges earlier in order that I might have had the opportunity to correct the misunderstandings under which Mr. Cole, and perhaps others, must have been laboring. If, however, my resignation serves the purpose of strengthening our housing laws and making their administration more effective, I will be happy to have contributed to that result.

The CHAIRMAN. Let me say, as I said 2 or 3 days ago, Mr. Hollyday, that the Housing Act is complex, it is big, it is hard to understand, and it is a tremendous thing. We can well understand how it would take considerable time for a man going in to get acquainted with the complexities of this law. It is a big thing. I have said in the past that I think the running of this Housing Administration is one of the biggest, if not the toughest, jobs in Washington. I am glad to repeat that again, today. There is no question about it. It is a big thing. You are dealing with billions and billions of dollars. You have all these houses going up and apartments and they have to be inspected, and it is a tremendous job. There isn't any question about it. It is a much bigger and harder job, I think, than anybody has recognized in the Congress or even in the Government. It is a tremendous job. One can see that under title I where you have 8,000 lending agencies out here making loans, it is a tough job. There isn't any question about that. It is tough and it is a rough job and I think maybe your resignation has protected this thing and it will be in the best interests of the people and everybody concerned that it has been brought

Mr. HOLLYDAY. I would like to think that, sir.

The **CHAIRMAN.** I never like to see anybody make a sacrifice, a personal sacrifice, but in this instance, I think bringing this thing to a head as the President did, and as you did and others, has been in the best interests of the American people. I have been amazed at the things that have evidently been happening in FHA. I hope it is not true in public housing and I hope it isn't true in cooperative housing and other phases of the housing business. It is going to take us several months, I think, to find out just what it is all about, which leads us to this conclusion, now: We thought we would finish our hearings today—that is our preliminary hearings before getting into the investigation—and then proceed in a couple of weeks to write up this new legislation. But I can see now we are going to have to have at least 2 more days of hearings, which will be next Wednesday and Thursday, at which time we want to get the facts and information from Mr. Greene and the gentleman who was under Mr. Powell, on section 608. Then I think we will follow your suggestion and invite Mr. Murphy, and possibly the General Counsel, Mr. Bovard, and get more information from them on the operation of this business before we even make any effort to write up the housing bill.

Certainly, I don't want anybody to feel that we are not going to write up the bill. We are. I don't want anybody to feel we are not going to present a bill to the Senate, because we are. I don't want anybody to go out of here and say that we aren't going to have a housing bill, because my best judgment is that we will have a housing bill. I am hopeful that that bill will eliminate all possibilities, or at least eliminate to a minimum the possibilities of all these alleged irregularities ever again happening that we have been hearing about, here, and will hear about in the next few days.

Senator Lehman.

Senator LEHMAN. Mr. Chairman, I have no way of judging whether Mr. Hollyday was derelict in his duties or not. I have no way of knowing it, and I don't know the charges that were the basis for his having been removed. I do want to say this, though, that the memorandum of regulations and procedures which were prepared by Mr. Hollyday and submitted, I believe, at the end of October, and which met with the approval of the President's Advisory Committee on Housing, are an extremely valuable document. I very much hope that at least the purpose of those new proposed regulations, which are in effect today, will be made part of the law when we are ready to report on it. I think they are valuable and I think if they had been in effect some time ago, it would have prevented at least part of the abuses and evils which we have suffered.

The **CHAIRMAN.** Are there any other questions, gentlemen?

Senator Payne.

Senator PAYNE. I would like to ask Mr. Hollyday a question, so the record will be as clear as possible on this.

You made reference in your statement to the man who was reported to have received a \$10,000 payment from a builder.

Was that discussed at all with Mr. Cole? Do you remember?

Mr. HOLLYDAY. I don't think so, sir.

Senator PAYNE. You don't think it was?

Mr. HOLLYDAY. I don't think that was taken up with him.

Senator PAYNE. Did that information come to you shortly after you had taken over office?

Mr. HOLLYDAY. I would say it came to me pretty closely around the end of the first week in July. I came with the Administration on April 17.

Senator PAYNE. Did you, in your own mind, satisfy yourself that there might have been facts in the report that was made?

Mr. HOLLYDAY. Senator, I was very gravely concerned and tried with the best advice that I could get over a fairly long period of time, to establish the allegation, and when I couldn't, I felt that unquestionably the matter should be turned over to the Department of Justice.

Senator PAYNE. And it was turned over?

Mr. HOLLYDAY. Yes, sir; it was. December 18. If I had to pinpoint it, maybe it would be July 10 to December 18 when it was in my hands.

Senator PAYNE. So, after you had tried in every way possible to determine whether or not there were facts behind the report, and you were unable to come up to a point of being able to fairly judge it to a conclusion, you then handed it over with the Department of Justice?

Mr. HOLLYDAY. That's exactly right, sir.

The CHAIRMAN. I have tables showing the status of the lending programs of FHA, which will be inserted in the record.

(The tables referred to follow :)

[Dollar amounts in thousands]

Year	All pro-grams		Home mortgage insurance pro-grams				Project mortgage insurance programs				Property improvement loans insurance program				Manufactured housin insurance pro gram			
	Amount	Units	Number	Amount	Units	Number	Amount	Units	Number	Amount	Units	Number	Amount	Units	Number	Amount	Units	
Insurance written:																		
1952.....	3,112,782		254,426	1,942,307	246,109	240	321,911	30,839	1,495,741	848,327	n. a.	85	237		85	237	85	
1953.....	3,881,942		261,541	2,288,627	272,259	221	258,639	30,952	2,244,397	1,334,454	n. a.	40	221		40	221	83	
January to March 1954.....	732,812		55,013	490,569	57,285	53	40,828	4,907	322,370	192,391	n. a.	8	23		8	23	8	
Cumulative through March 1954.....	33,688,163		3,477,961	21,392,651	3,662,906	8,219	4,689,423	644,965	16,887,755	7,601,141	n. a.	638	4,947		638	4,947	1,845	
Data through Jan. 31, 1954:																		
Mortgages and notes insured.....	33,219,912		3,446,544	21,076,293	2,626,641	8,173	4,660,539	641,467	16,081,630	7,478,163	n. a.	632	4,930		632	4,930	1,839	
Mortgages terminated.....	7,571,409		1,466,354	7,136,290	n. a.	950	430,403	n. a.	n. a.	n. a.	n. a.	604	4,748		604	4,748	n. a.	
Mortgages in force.....	18,043,740		1,934,065	13,813,422	n. a.	7,223	4,230,136	n. a.	n. a.	n. a.	n. a.	28	182		28	182	n. a.	
Amortization.....	1,933,692			1,734,823	n. a.		198,869	n. a.	n. a.	n. a.	n. a.		0			0	n. a.	
Insurances in force.....	17,620,308		1,934,065	12,078,999	n. a.	7,223	4,031,267	n. a.	n. a.	1,510,360	n. a.	28	182		28	182	n. a.	
Properties, mortgages, or notes acquired.....	237,354		16,883	97,140	19,087	298	135,158	22,118	n. a.	n. a.	n. a.	67	1,053		67	1,053	370	
Properties, mortgages, or notes sold.....	110,897		14,365	86,033	17,194	47	24,240	6,112	n. a.	n. a.	n. a.	65	626		65	626	209	
Properties, mortgages, or notes on hand.....	126,457		1,518	11,108	1,893	251	114,919	16,006	n. a.	n. a.	n. a.	2	429		2	429	101	
Net loss to insurance fund.....	79,719			5,363			4,251		74,216		n. a.		413			413		

See p. 73 of PAC report for footnotes.
 Source: Agency Reports and Statistics Staff, Office of the Administrator, Housing and Home Finance Agency.

[Dollar amounts in thousands]

Year	Title VI										Title IX, sec. 903		
	Sec. 603			Secs. 603-610			Sec. 611, single family						
	Number	Amount	Units	Number	Amount	Units	Number	Amount	Units	Number	Amount	Units	
Insurance written:													
1952	16	109	16	29	182	40	69	516	69	12,510	108,535	14,552	
1953	65	279	65	7	44	7	0	0	0	22,956	202,086	23,909	
January to March 1954	0	0	0	0	0	0	0	0	0	7,439	67,803	8,513	
Cumulative through March 1954	624,652	3,645,260	690,006	3,392	16,103	5,156	75	566	75	42,905	378,438	48,984	
Mortgages insured through Jan. 31, 1954	628,014	3,645,260	690,006	3,392	16,103	5,156	75	568	75	39,061	342,407	44,459	
Mortgages terminated	399,078	1,628,091	n. a.	389	1,636	n. a.	4	40	4	183	1,608	n. a.	
Mortgages in force	318,936	2,117,169	n. a.	2,973	14,357	n. a.	71	516	71	38,878	340,739	n. a.	
Amortization		378,860			1,605			13			4,888		
Insurance in force	318,936	1,738,309	n. a.	2,973	12,961	n. a.	71	503	71	38,878	335,851	n. a.	
Properties, mortgages, or notes acquired	10,150	64,788	13,351	Included in sec. 603			0	0	0	0	0	25	
Properties, mortgages, or notes sold	8,991	58,258	11,820	Included in sec. 603			0	0	0	0	0	25	
Properties, mortgages, or notes on hand	1,159	8,529	1,331	Included in sec. 603			0	0	0	22	179		
Net loss to insurance fund		2,522		Included in sec. 603			0	0	0				

Mortgages and loans insured by FHA, 1935 to Mar. 31, 1954, and status of the programs as of Mar. 31, 1954—Continued

[NOTE.—This is a continuation of the table on p. 76 of the report of the President's Advisory Committee on Housing]

[Dollar amounts in thousands]

Year	Title II						Title VI, sec. 608		
	Project mortgage program total			Sec. 207			Sec. 213		
	Number	Amount	Units	Number	Amount	Units	Number	Amount	Units
Insurance written:									
1933.....	240	321,911	39,839	67	41,843	6,043	59	91,701	9,774
1934.....	221	258,639	30,932	82	33,182	7,175	46	75,324	7,693
January to March 1954.....	53	40,828	4,607	12	13,988	1,542	33	15,551	1,635
Cumulative through March 1954.....	8,219	4,680,423	644,695	630	329,201	63,532	178	257,743	27,298
Mortgages insured through Jan. 31, 1954.....	8,173	4,660,539	641,467	621	324,931	64,865	147	243,919	25,810
Mortgages terminated.....	8,650	4,430,403	611,467	352	150,707	64,865	43	58,499	6,157
Mortgages in force.....	7,223	4,230,136	600,000	269	174,224	64,865	104	185,420	19,653
Amortization.....		198,869			6,655				
Insurance in force.....	7,223	4,031,267	593,219	269	167,569	64,865	104	185,797	19,653
Properties, mortgages, or notes acquired.....	7,298	4,139,158	22,118	22	17,524	4,314	3	2,231	335
Properties, mortgages, or notes sold.....	47	24,240	6,112	18	18,966	4,135	0	0	0
Properties, mortgages, or notes on hand.....	251	114,919	16,006	4	1,539	179	3	2,231	335
Net loss to insurance fund.....		1-251			1-104				

Year	Title VI—Continued						Title VIII, sec. 803			Title IX, sec. 908		
	Secs. 608-610						Sec. 611 projects					
	Number	Amount	Units	Number	Amount	Units	Number	Amount	Units	Number	Amount	Units
Insurance written:												
1962.....	0	0	0	1	706	125	58	135,842	17,233	36	22,186	3,207
1963.....	0	0	0	3	928	145	46	98,968	12,149	44	30,243	3,892
January to March 1964.....	0	0	0	0	0	0	3	7,289	923	5	4,041	507
Cumulative through March 1964.....	23	8,360	3,915	25	11,991	1,984	233	585,634	72,669	85	56,724	7,874
Mortgages insured through Jan. 31, 1964.....	23	8,360	3,915	25	11,991	1,984	231	578,551	71,865	80	52,683	7,097
Mortgages terminated.....	5	1,743		• 19	10,108		0	0		0	0	
Mortgages in force.....	18	6,617		• 6	1,853	231	231	578,551		80	52,683	
Amortization.....		859			41		231	8,784			181	
Insurance in force.....	18	5,778		• 6	1,842		231	570,067		80	52,502	
Properties, mortgages, or notes acquired.....	0	0	0	0	0	0	0	0	0	0	0	0
Properties, mortgages, or notes sold.....	0	0	0	0	0	0	0	0	0	0	0	0
Properties, mortgages, or notes on hand.....	0	0	0	0	0	0	0	0	0	0	0	0
Net loss to insurance fund.....	0	0	0	0	0	0	0	0	0	0	0	0

FHA insuring operations, by title and section of law

Title and section of law, by type of structure	During January 1953, mortgages and loans insured				Cumulative, 1954 through end of January 1954			
	Mortgages and loans insured		Insurance outstanding		Mortgages and loans insured		Insurance outstanding	
	Number	Number of units	Amount		Number	Number of units	Amount	
Grand total, all titles.....	136,479	122,304	Thousands \$285,116		20,133,617	14,269,847	Thousands \$33,219,913	Thousands \$17,620,398
Home mortgages, total.....	20,234	21,020	183,443		3,443,182	3,626,641	21,076,261	12,096,623
Title I:								
Sec. 2, new housing.....					46,116	46,116	126,611	17,914
Sec. 8:								
New housing.....	385	385	2,003		16,618	16,618	82,064	78,873
Existing housing.....	6	6	31		355	355	1,766	
Title II:								
Sec. 203:								
New housing.....	9,133	9,294	88,772		1,263,823	1,415,069	8,845,964	9,880,983
Existing housing.....	6,826	7,058	62,720		1,320,595	1,401,332	7,962,462	
Sec. 213, refinanced housing.....	289	289	3,129		6,626	6,626	63,011	61,170
Title VI:								
Sec. 603:								
New housing.....					604,232	606,269	3,837,229	1,738,309
Existing housing.....	0	0	0		20,360	28,707	108,081	
Sec. 603-610, public housing sales.....	0	0	0		3,262	5,166	16,103	12,961
Sec. 611, refinanced housing.....	0	0	0		75	75	566	513
Title IX:								
Sec. 903:								
New defense housing.....	3,451	3,944	31,360		38,622	43,913	338,009	335,861
Existing defense housing.....	44	44	426		439	546	4,366	
Project mortgages, total.....	6	1,262	12,276		8,173	641,367	4,660,699	4,081,367
Title II:								
Sec. 207:								
New rental housing.....	3	976	9,668		601	60,376	308,346	167,669
Refinanced rental housing.....	0	0	0		20	4,611	16,866	
Sec. 213, new cooperative housing.....	2	177	1,737		147	23,810	243,919	188,797

Title VIII: Sec. 803, new military housing.....	1	128	831	231	71,865	578,851	570,037
Title IX: Sec. 906, new defense housing.....	0	0	0	80	7,067	52,663	52,503
Manufactured housing loans: total.....	2	2	5	632	1,839	4,930	183
Title VI:							
Sec. 609:							
Manufacturers' loans.....	0	0	0	11	1,218	3,196	100
Purchasers' loans.....	2	2	5	621	621	1,733	83
Property improvement loans: Title I, sec. 2.....	116,237	(*)	66,392	16,661,630	(*)	7,478,153	1,492,496

Source: Federal Housing Administration.

* Excludes property improvement loans under title I.

; Not available.

The CHAIRMAN. We will now recess until 10 o'clock next Wednesday, at which time we will have as witnesses Mr. Greene, Mr. Murphy, and others.

(Whereupon, at 2:50 p. m., the committee recessed to reconvene at 10 a. m., Wednesday, April 28, 1954.)

HOUSING ACT OF 1954
FHA Insurance Provisions

WEDNESDAY, APRIL 28, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bricker, Ives, Bennett, Bush, Beall, Payne, Maybank, Frear, Douglas, and Lehman.

The CHAIRMAN. The committee will come to order.

Our first witness this morning will be Mr. Walter L. Greene. Mr. Greene, will you please come forward? Will you be sworn, please?

Do you promise to tell the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF WALTER L. GREENE, DEPUTY COMMISSIONER
(Retired), FEDERAL HOUSING ADMINISTRATION

Mr. GREENE. I do.

The CHAIRMAN. Thank you. You may be seated, Mr. Greene.

Do you have a prepared statement, Mr. Greene, that you wish to make?

Mr. GREENE. No, Senator; I do not have a prepared statement. I have a few suggestions that I would like to make.

The CHAIRMAN. Let me ask you a couple of questions, first, and get you identified here, so that your testimony will possibly be worth more. How long have you been with the FHA?

Mr. GREENE. Since the inception of the FHA.

The CHAIRMAN. Since 1934?

Mr. GREENE. Yes, sir.

The CHAIRMAN. And what has been your position?

Mr. GREENE. I started out in the Birmingham office as executive assistant to the director, and transferred to Washington in 1937, as an underwriter in the Underwriting Division, Chief of the Location Section of the Underwriting Division.

The CHAIRMAN. Chief of the Location Section?

Mr. GREENE. Yes. That is a part of the appraising operation.

The CHAIRMAN. That is a part of the appraising operation?

Mr. GREENE. Yes, sir.

I was transferred in 1939 or 1940, and later became zone commissioner, now called regional director, for the west coast area. And then

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You think it ought to be confined to just what we know to be home repairs and home improvements?

Mr. GREENE. I think, Senator, that it is terrifically important that some provision, such as title I, remain available in order that we can conserve the vast inventory of existing houses, to keep them in repair and to keep them improved, to keep depreciation from working on them. And I think that some of the items that we now consider as appliances very properly are to be considered in the light of home improvements to the existing inventory.

The CHAIRMAN. What do you think happened that caused the FHA to include so many—several hundred—items that they did, which really were not in the category of repairs or home improvements in the sense that we normally think of repairs and home improvements?

Mr. GREENE. Well, I don't know that I could give you a very good answer on that, because this is a thing that has grown through the years, and if one type of improvement, so-called improvement, was eligible, another type that was close to it would be considered eligible too. It would naturally grow under that type of interpretation.

The CHAIRMAN. Is it your thought that if it was confined to what we normally think of as home improvements and repairs, that you would eliminate these salesmen and all the abuses that have evidently grown up here in cheating the property owner?

Mr. GREENE. Not entirely by that means alone. I would suggest in addition to that—

The CHAIRMAN. You have another suggestion?

Mr. GREENE. I have two more.

Senator Ives. Mr. Chairman?

The CHAIRMAN. Senator Ives.

Senator Ives. I was wondering at this stage if it wouldn't be a good idea to find out just exactly what we mean by normal home improvements. When you started out in your statement, Mr. Greene, you said such improvements should be limited to structural improvements. And now you branch out and indicate that you feel they should cover home appliances. To what extent are home appliances structural improvements?

Mr. GREENE. Senator, I hate to mention a specific item, but I guess it is probably best that I do, so that I might be right. And I use for an example—I am not even sure we allow them today—disposals, dishwashers, items of that kind. They are becoming very common practice in homes.

Senator Ives. You regard those as structural improvements?

Mr. GREENE. Well, you can regard them as structural improvements, yes.

Senator Ives. I was wondering where we are going to draw the line. I don't criticize those people who have expanded it so much, because I can see it is difficult to draw a line.

Mr. GREENE. That is the reason I stated I think it would be difficult for the Congress to—

The CHAIRMAN. Why do you suppose a disposal would be more important to a home than a washing machine?

Mr. GREENE. I don't think it would. I think if a washing machine is definitely attached to the structure and becomes a part of the laundry, it would probably be included.

could be ruled out so that basically you would keep to the idea of structural improvements and repairs.

HAIRMAN. From the very beginning, did you have that broad idea of home improvements, to include all sorts of gadgets, 934?

REENE. It seems that we did, Senator, as long as I can remember it. There was not so many of them as there has been in the past, but I think it has always been the same interpretation.

HAIRMAN. Did it work like this, to your knowledge, that a manufacturer would come in and bring in a gadget and say, "I want this approved for insurance purposes." Is that the way it

REENE. That is right.

HAIRMAN. And then did you have a committee that would name those individual, let's call them gadgets, for lack of a better name at the moment, or products, I presume we should call them.

REENE. They were passed upon by the Title I Division of

HAIRMAN. By a special committee?

REENE. I believe by a special committee.

HAIRMAN. You wouldn't happen to remember who was the chairman?

REENE. I don't remember. I am not sure there was a chairman, but I think there was.

HAIRMAN. But it would work like this: A manufacturer would bring his product in and convince the officials that they should put it on the list, so that it could be insured by FHA? Is that the way it worked?

REENE. Yes, sir.

HAIRMAN. And was that done under the home-improvement part of the bill?

REENE. Well, I don't know what the basis of the interpretation was, Senator.

HAIRMAN. Could you tell us, for example, how television came approved, or would you know?

REENE. No, I wouldn't know.

HAIRMAN. You wouldn't know how any of them specifically were approved?

REENE. No.

HAIRMAN. But you do know they were approved?

REENE. That is right.

HAIRMAN. You feel that what we ought to do in the Congress is to specifically list the items that can be insured, and limit it to

REENE. It is going to be difficult for the Congress to do it.

In other words, I think it would be better if they could promulgate under which the Counsel of FHA could have some authority because I think some of these things should remain in the

I think most of them should go out.

another suggestion—

HAIRMAN. It has been said there were 500 to 600 items. We have it in the record here the other day. I doubt if it is quite 500 items, but it may well be, but it is a very large list. (See p. 1597.)

You think it ought to be confined to just what we know to be home repairs and home improvements?

Mr. GREENE. I think, Senator, that it is terrifically important that some provision, such as title I, remain available in order that we can conserve the vast inventory of existing houses, to keep them in repair and to keep them improved, to keep depreciation from working on them. And I think that some of the items that we now consider as appliances very properly are to be considered in the light of home improvements to the existing inventory.

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Mr. GREENE. That is the reason I stated I think it would be difficult for the Congress to—

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Mr. GREENE. I don't think it would. I think if a washing machine is definitely attached to the structure and becomes a part of the laundry, it would probab-

The CHAIRMAN. Certainly we can start out on the basis that anything that falls in the category of consumer goods, such as dishwashers and disposals, and so forth ought not to be included.

Mr. GREENE. Yes. For example, we had the question of air conditioning. Air conditioning is certainly coming into very common usage by all homeowners, but there is a lot of difference in whether it is mobile unit that you could pick up and walk away with, or whether it is part of your structure, fastened to it.

The CHAIRMAN. Do you have any knowledge of which particular one of these items or categories of items that were insured caused most of the trouble, with these hordes of salesmen that were out allegedly misrepresenting the facts? Was it the consumer goods and of the things that were insured, or was it the roofs, sidings, floors, or was it everything?

Mr. GREENE. It was not always consumer goods. As I recall it, we had considerable difficulty with roofings and sidings at one time.

Our second suggestion, Senator, is that I believe a coinsurance feature should be introduced that would work something like this—

The CHAIRMAN. A coinsurance feature?

Mr. GREENE. Yes. Where an institution had a claimed ratio of 2 percent or more, they would be put under a coinsurance provision, to the extent of at least 5 percent.

The CHAIRMAN. You mean by that if they had a loss of a thousand dollars today, that they would take, say, maybe \$200 of the loss and the Government would take \$800 of it. Is that what you mean?

Mr. GREENE. Yes, sir.

The CHAIRMAN. In other words, they would have a little loss.

Mr. GREENE. If their claims ratio was higher than the average, then they would not be paid 100 percent of their claim, but would have to carry a part of that as their own loss. For example, a graduation scale, if you wish, with a 2 percent claims ratio, where they would only get 95 percent. If they had a claims ratio of 3 percent, it would only be 75 percent or 80 percent. I think it would help.

The CHAIRMAN. What would you think of just a flat arrangement, whereby they always shared in a portion of every loss?

Mr. GREENE. I think it would be good, except that I don't believe you need it for some institutions, where they are doing a good job.

The CHAIRMAN. I am thinking in terms, say, if a bank's loss was 10,000 in a given year, they would—I don't know whether this is the right figure or not, but they would absorb \$2,000 of the loss, and the FHA would insure \$8,000.

Mr. GREENE. Yes.

The CHAIRMAN. Meaning that wherever there was a loss that they could share a portion of it. As it is now, they possibly never share any of the loss, because they get 10 percent of their total outstanding that is always insured at any one time.

Mr. GREENE. I think it might be better to have the coinsurance feature apply to the institutions who have higher than an average claims ratio.

The CHAIRMAN. Those are the only two suggestions you have to improve title I?

Mr. GREENE. The third one I have is a better policing by the FHA. Policing alone, Senator, will not do the job, and we should not have to depend upon policing to do the job. If there are things in the

legislation or things in the administrative handling of the legislation that can cure the troubles, they should be cured at that point rather than by policing.

But I think we will always have the necessity of doing a certain amount of policing and it should be done properly and adequately. We have not been able to do that.

The CHAIRMAN. Would it ruin the program entirely if you required that these banks sign an affidavit or sign a statement that they had checked personally with the person who received the loan, the person that received the goods, and that everything was all right? Don't you think they would do that if it was a private loan under which the Government was not guaranteeing anything?

Mr. GREENE. I think they do that, Senator, under the new regulations that Mr. Hollyday put in. They have a waiting period of some 4 or 5 days in which the bank gets in touch with the borrower, and acquaints him with the fact that he is actually borrowing his money from this bank, and as to the completion certificate, and things of that kind. I believe it will adequately take care of that.

The CHAIRMAN. You think we ought to make a part of the law those regulations that were promulgated by Mr. Hollyday a few months ago?

Mr. GREENE. I would see no harm in doing so, although I don't believe it would be essential.

Senator IVES. Mr. Chairman?

The CHAIRMAN. Senator Ives.

Senator IVES. How would you have this apply to declining balances, under the amounts paid off?

Mr. GREENE. You mean in the coinsurance plan?

Senator IVES. Yes.

Mr. GREENE. I would say, Senator, that it would work like this: That if an institution was running a 2-percent claims record, that so long as that claims record remained at 2 percent we would only pay them, say, 95 cents on every dollar of the unpaid balance that they make a claim for, meaning that they would actually have to suffer 5 percent of the loss.

It requires the lending officer of this institution to report to his directors that he did so. It brings it to the attention of the directors of the lending institution.

The CHAIRMAN. Mr. Greene, I don't think we have had any testimony yet but what the banks have been amply protected. I think the testimony to date has proven that the Federal Government hasn't lost any money yet.

What we are trying to find here is a method or a system to write into the law to protect the property owner himself, who seems to have carried the brunt of the burden. What I am personally trying to find is a system whereby we can write into the law something compelling the banker, the lender, or the dealer, or both—and I think it might well be the banker—to absolutely make certain that the property owner was not fleeced or taken advantage of by the dealer or the salesman.

That is what we are trying to do so far, and one can well understand if a bank can't collect it, they turn it over to the Federal Government

average person is afraid of the Federal Government as a collector. When a Federal Government man comes around and says, "You owe me money," they generally find some way of paying it.

So I think our problem is to find some way to eliminate the dealers and the salesmen taking advantage of the property owner, or the man that borrows the money, or the man that wants to get his home repaired. That seems to have been the basis of our trouble, hasn't it?

Mr. GREENE. Yes; I agree with you that is undoubtedly the basis of the trouble.

I believe, Senator, that you have protection against those items, if we can exercise those protections.

Now, let me review for a minute what happens——

The CHAIRMAN. Let me ask you this: Why shouldn't the lender sign an affidavit, a straight out-and-out affidavit, that he or his people have talked to the man that borrowed the money, and that he has received the goods that he bought and that they have been installed, and that he is perfectly satisfied?

Senator Ives. In other words, why shouldn't he pursue the same course he would pursue if the Government weren't in the picture?

The CHAIRMAN. That is my point. I think he would do that even if the Government wasn't in the picture.

Mr. GREENE. There is no reason why he could not do that. I have talked to some of the lenders along that line. They say, if you take individual cases, that here is a man who has applied for a title I loan, and he works out at a field plant every day, and to have him stop and come into the bank so that they can talk to him——

The CHAIRMAN. Let them go out there. They are getting 9.6 percent, less a half a percent for insurance. It is certainly bigger than the 2 or 2¼ percent they get from Government bonds.

Mr. GREENE. I would certainly have no objection to that, Senator. I do raise the question that it might affect the program. I believe what you have now would do adequately where the bank is required to get in touch with him.

The CHAIRMAN. Do you think it was ever possible for the abuses and alleged irregularities and downright crookedness, that we have been hearing about here for 3 weeks, as testified to by Mr. Olney, the head of the Criminal Division of the Department of Justice, for that sort of thing to exist without the lender or the banker knowing about it or being a part of it?

Mr. GREENE. To me, Senator, these problems are astounding. I can't reconcile them. Mr. Olney referred to hundreds of thousands of cases. How that possibly could be, in a job I was in, with hundreds of thousands of cases going on, is beyond my comprehension. I say that to you frankly, because I did not realize that any such condition was going on.

I feel today that you may find that the hundreds of thousands of cases about which Mr. Olney is referring are in the main what we might term service disputes. The man didn't like the way that his job was done, he complained to the State director, the State director got the builder in, and the builder corrected the job. It wasn't complete. It wasn't a normal operation or anything of that nature. I believe you will find anything like 100,000 or 50,000 or 25,000 irregularities in title I operations.

The CHAIRMAN. Let's say there were tens of thousands rather than hundreds of thousands. It would still be too many.

Mr. GREENE. Agreed.

The CHAIRMAN. I don't think there is any question but what it has been widespread. Whether it be tens of thousands or hundreds of thousands, I don't think there is any question but what it has been widespread.

And the unfortunate part about it is there is no question in my mind that people felt they were doing business with the Federal Government. When they were cheated, they rather felt the Federal Government was part of the transaction and that the Federal Government ought to give them better protection. Of course, that is inherent any time the Federal Government enters into this sort of thing.

But I think our problem here in title I is to write the law to find some way to protect the property owner. It looks to me as though the banker has been well protected, the dealer has been well protected, the salesman has been well protected. The poor property owner sitting out there, who has borrowed the money and who has bought the goods and paid the bill, I think we have to find some way of protecting him.

Mr. GREENE. Well, sir, I think——

The CHAIRMAN. I think all these things you have suggested will be helpful. I think they are good.

Senator BUSH. Mr. Chairman?

The CHAIRMAN. Senator Bush.

Senator BUSH. Do you think this serves a useful purpose in the general scheme?

Mr. GREENE. Indeed I do, Senator. I think it is an excellent program. It started out, as you know, to get the work back on the board again, but it has a much more important basis than that. When you think of the great number—I can't quote it; I don't know whether it is 40 million or 50 million existing homes—that are gradually depreciating, a program such as title I, where over a reasonable period you could keep those places up to conserve the inventory of existing houses, I think is a basically good program, whether it is conducted by the Government or conducted by private institutions.

Senator BUSH. Why does it have to be conducted by the Federal Government? These loans—as you say, the FHA hasn't lost any money on this. Why can't this whole program be done without the FHA at all?

Mr. GREENE. There is no reason that I know of why it cannot be done by private capital, except that the Government has, in the past, been responsible for the charges of that type of operation.

Senator BUSH. I hope the Government isn't responsible for the charges made by these contractors.

Mr. GREENE. I mean the interest rate. Consumer credit is generally at a high interest rate. You speak of 9.7——

The CHAIRMAN. 9.6. They may pay either a half or three quarters percent insurance fee.

Mr. GREENE. Three-quarters. So they actually get eight and a fraction. I think you will find that is less than the rate provided for for independent consumer credit.

Senator BUSH. Then you think that the volume of the work that has been done has been stimulated by the Government subsidizing the interest rate?

Mr. GREENE. I don't understand about subsidizing the interest rate.

Senator BUSH. I thought you inferred—I don't mean to put words in your mouth, but I thought you inferred that by the Government fixing these interest rates at a low, low rate, that that had resulted in more business having been done than might have been done in a free market.

Mr. GREENE. Oh, yes; I think that is true, Senator.

Senator BUSH. I call that subsidizing the interest rate, because the Government guaranty is what subsidizes the interest rate. There is no question about that, is there?

Mr. GREENE. No.

Senator BUSH. Now, my point is: Haven't we gotten to the point where you have dispensed with title I altogether, and still do the job that you think needs to be done? Do you think that if title I were abolished, that the lenders would immediately put up the interest rates, jack them up?

Mr. GREENE. I don't know that they would do so immediately. I think the competition might drive them up a little bit as we went along. And I am not sure that you would get as broad a coverage of title I loans available to people in all communities as you do today. I think that many institutions would go right along with their own program, whether they have the insurance or not.

Senator BUSH. Because they couldn't afford to do it?

Mr. GREENE. Yes, sir. They don't have a large enough volume—

Senator BUSH. How can they afford to do it now?

Mr. GREENE. It depends upon the Government guaranteeing them.

Senator BUSH. But they don't lose much money, so they don't need it.

Mr. GREENE. The question is whether they would make it without that.

Senator BUSH. But if the loss ratio has been very low, which I understand your figures indicate, certainly they ought to have learned by now that these are pretty good loans.

Mr. GREENE. If private industry would carry its own, I see no reason for the Government remaining in.

Senator BUSH. I think that is a very good statement. You, on the other hand, are not optimistic about the ability of private industry to go ahead and do it?

Mr. GREENE. I am not too optimistic about it, to the extent that you would get the coverage that you have today. I think the large institutions would undoubtedly go ahead under their own plan. They were not entirely enthusiastic about the title I program when it started.

If you recall, in 1934 the National City Bank of New York was about the only institution that had a large consumer credit operation. And after that, many of them came into the field. And that has gradually grown up. Today I think a great many would continue their own plan, keeping their own reserves, if the Government were to leave the business.

SEN. N. Mr. Greene, why did you and others in the Administration recommend to us that we

increase the amount from \$2,500 to \$3,000, and lengthen the terms, just 3 or 4 months ago?

Mr. GREENE. Senator, I would say that that—

The CHAIRMAN. In all fairness, this was recommended by the President's Commission likewise.

Mr. GREENE. I would say that was more of a concurrence with FHA, as I recall it, than anything else. We did not raise the question or initiate the idea of increasing the amount. There was a call for it, from some quarters—I don't remember exactly why.

The CHAIRMAN. You mean it was recommended by the President's Commission?

Mr. GREENE. The President's Commission was one of them that considered it and discussed it. In fact, they were discussing raising the amount to \$5,000.

The CHAIRMAN. They even discussed raising it from \$2,500 to \$5,000.

Mr. GREENE. There was a discussion to raise it to \$5,000. I am not sure that was in the President's Commission or elsewhere. But that was frequently discussed.

The CHAIRMAN. It was made outside the recommendations that Mr. Hollyday put in, the changes last fall? They made no recommendations as to tightening the law to eliminate the alleged abuses and irregularities, did they?

Mr. GREENE. No, sir, other than those that Mr. Hollyday had recommended.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Mr. Chairman, while we are still talking title I, I would like to get into the record at this point, with your permission, a letter which describes in very illuminating detail, the method by which I think the total volume of title I loans had been forced up.

This letter came to me, dated April 23. I have deleted the names, but the story is a very interesting one:

We have been reading about the above investigation in the daily newspapers.

On August 7, 1952, a salesman by the name of Mr. T sold to us under extreme high pressure methods a fire alarm system for our home under an FHA home improvement loan. We were told by Mr. T that it would be mandatory by January of 1954, by the FHA to have this equipment in our home before they would O. K. a loan.

In other words, before you could get a standard FHA loan, you had to have a fire alarm.

Senator DOUGLAS. This was not fire preventive, but fire alarm?

Senator BENNETT. This is a mechanical fire alarm system.

Senator DOUGLAS. For a single-family house?

Senator BENNETT. For a single-family house. And it says:

It was to our advantage to have it installed at that time in the event we should ever sell our home, which we were thinking of doing at that time. We, as sellers, would have to install the system. The FHA specifications at times are very peculiar, so we believed the salesman.

Mr. and Mrs. R also bought one of these systems and were told by the Blank Blank Co., who financed both the loans, that someone from the FHA would be down to inspect the equipment in order to arrive at a fair price after the bank had turned the account back to the FHA.

That is a little bit too difficult

Neither of us has seen an inspector.

Mr. and Mrs. R's system cost \$435 for seven units and no siren. We were charged \$410 for 11 units and a siren.

And, this is interesting:

We were promised a fire insurance policy which never arrived.

Apparently, the salesman said, "We will throw in with the alarm system a special fire insurance policy," which never arrived.

The same promise was made to the R's.

Mr. and Mrs. R's system was sold to them by a Mr. Y. Mr. T made the approach, then bowed out of the picture, with the explanation that he was new at the business, and Mr. Y would take over. Mr. T was called back for the signing of the contracts from a parked automobile in front of the house. The same thing happened to us, only it was Mr. Y who made the approach, and the same sequence of events followed, with Mr. T doing the selling. From the description given by the R's they did not switch names—just places.

The contracts were signed on X Fire Alarm Co. forms. We wrote to the company but they disclaimed any responsibility, with the explanation that they had sold the franchise for this territory to a Mr. V, of Z city. Mr. T and Mr. Y sold our contracts to Mr. V, who in turn sold them to the Blank Bank Co. Mr. R went to Z city to see Mr. V, who promised to reimburse Mr. R, but Mr. V left town immediately, after being called on the carpet by the FHA office.

There were other cases of these same 2 salesmen making sales in these 2 cities, and their accounts being turned over to the FHA for collection, as ours have been. We asked the bank for their names but they would never reveal them to us. They seem quite unhappy when the R's and us made contact with the bank.

We have made investigation on our own of two other people in the county who bought fire alarms systems. These two were not sold by the same salesmen or the above company. They varied from \$187 to \$359 for practically the same thing the R's and we were charged \$410 and \$435 for.

We were both told that no laws had been violated in either of our cases, and that we would be forced to pay for the equipment, even though the promises and statements by the salesmen had not been fulfilled. We are both making payments to the FHA directly at this time.

We are under the impression that the FHA needs a thorough housecleaning regarding title I loans, especially on the subject of siding, which is offered by the door-to-door salesmen for between \$700 and \$800, which any lumberyard will give quotations for approximately \$360, labor included, for exactly the same product and quality. If the above information is helpful in your investigation, we shall be most happy.

I would like to put the letter in its complete form in the record.

The CHAIRMAN. Without objection, we will place it in the record.
(The letter referred to follows:)

APRIL 23, 1954.

Re FHA investigation—Title I loans.

ION. WALLACE F. BENNETT,

United States Senate, Washington, D. C.

DEAR SIR: We have been reading about the above investigation in the daily newspapers.

On August 7, 1952, a salesman by the name of Mr. T sold to us under extreme high-pressure methods a fire-alarm system for our home under an FHA home-improvement loan. We were told by Mr. T that it would be mandatory by January of 1954 by the FHA to have this equipment in our home before they would O. K. a loan. It was to our advantage to have it installed at that time in the event we should ever sell our home, which we were thinking of doing at that time. We, as sellers, would have to install the system. The FHA specifications at times are very peculiar, so we believed the salesman.

Mr. and Mrs. R also bought one of these systems and were told by the Blank Bank Co., who financed both the loans, that someone from the FHA would be down to inspect the equipment in order to arrive at a fair price after the bank had turned the account back to the FHA. Neither of us has seen an inspector.

Mr. and Mrs. R's system cost \$435 for 7 units and no siren. We were charged

\$410 for 11 units and a siren. We were promised a fire-insurance policy which never arrived. The same promise was made to the R's.

Mr. and Mrs. R's system was sold to them by a Mr. Y. Mr. T made the approach, then bowed out of the picture with the explanation that he was new at the business and Mr. Y would take over. Mr. T was called back for the signing of the contracts from a parked automobile in front of the house. The same thing happened to us, only it was Mr. Y who made the approach, and the same sequence of events followed, with Mr. T doing the selling. From the description given by the R's they did not switch names—just places.

The contracts were signed on X Fire Alarm Co. forms. We wrote to the company, but they disclaimed any responsibility with the explanation that they had sold the franchise for this territory to a Mr. V of Z City. Mr. T and Mr. Y sold our contracts to Mr. V, who in turn sold them to the Blank Bank Co. Mr. R went to Z City to see Mr. V, who promised to reimburse Mr. R, but Mr. V left town immediately, after being called on the carpet by the FHA office in Z.

There were other cases of these same two salesmen making sales in P and S and their accounts being turned over to the FHA for collection as ours have been. We asked the bank for their names, but they would never reveal them to us. They seemed quite unhappy when the R's and us made contact.

We have made investigation on our own of two other people in the county who bought fire-alarm systems. These two were not sold by the aforementioned salesmen or the above company was not connected with them. They varied from \$187 to \$359.76 for practically the same thing the R's and we were charged for. The homeowners were quite satisfied with their purchase. The Blank Bank Co. financed one of the above-mentioned systems.

We were both told that no laws had been violated in either of our cases and that we would be forced to pay for the equipment, even though the promises and statements by the salesmen had not been fulfilled. We are both making payments to the FHA directly at this time.

We are under the impression that the FHA needs a thorough housecleaning regarding title I loans, especially on the subject of siding which is offered by the door-to-door salesmen for between \$700 and \$800, which any lumber yard will give quotations for approximately \$360, labor included, for exactly the same product and quality. If the above information is helpful in your investigation, we shall be most happy.

Very truly yours,

Mr. and Mrs. D.

The CHAIRMAN. Let me ask you this: Do you think the bank knew about the activities of the salesmen who were selling these so-called fire alarms and financing them through the bank? Do you think that banker knew about this?

Mr. GREENE. No; I do not.

The CHAIRMAN. You do not think he did?

Mr. GREENE. No, sir.

The CHAIRMAN. You think he was absolutely ignorant of what was going on?

Mr. GREENE. I think that is entirely possible.

The CHAIRMAN. Let me ask you this question. We are going to get into that. Would you happen to know who it was in the FHA that approved fire alarm, burglar- and fire-alarm systems, to be made a part of this program?

Mr. GREENE. No; I don't.

The CHAIRMAN. Would you happen to know when they were approved?

Mr. GREENE. No.

The CHAIRMAN. Was it 2 years ago, 4, 6, 8, or 10 years ago?

Mr. GREENE. No; I don't know.

The CHAIRMAN. Is there anybody in the room that could tell us?

Mr. GREENE. Mr. Bovard might be able to.

The CHAIRMAN. I don't mind tell you that when we get into the real investigation of this, we are going to get the FHA papers, we are

going to get the representatives that came in and got fire alarms approved, and many other things. We are going to get into it and find out how it happened.

But you wouldn't know at the moment, or you couldn't give us any help?

Mr. GREENE. I couldn't, Senator. I didn't come into the operation of approving those loans.

The CHAIRMAN. We are going to find out. If there are any papers with respect to the fire alarms, we are going to get them before the committee. We are going to get the FHA man that approved it, we are going to get the people that came in and asked that it be approved. We are going to bring them before our committee, and we are going to ask them how they did it, and under what circumstances, because to me it is just beyond imagination that anyone would approve that sort of thing under these titles.

Senator Lehman.

Senator LEHMAN. I was not here when you gave the major part of your testimony. This question which I am going to address to you now may have been discussed earlier in the morning.

I personally believe that title I has served a very great purpose, and has been helpful, in my opinion, to many thousands, if not hundreds of thousands, of homeowners, of moderate or small means. I should very much dislike to see it discontinued. On the other hand, I realize that we must plug up some of the loopholes because of which abuses have crept in.

In the testimony of Mr. Olney last week he said that most of the abuses and frauds, if you call them frauds, occurred in those instances where the deal with the bank was made by the builder or by the dealer, and that in those cases in which the negotiations were carried out and consummated by the homeowner himself, with the bank, there were very few, if any, cases of fraud or misrepresentation.

It seems to me that is an extremely important point to which we must address ourselves when we seek to write the new housing bill. I would like to get your judgment as to the accuracy of Mr. Olney's statement, which makes sense to me. In other words, do you think that we should write into the bill a provision that the negotiations must be carried out and consummated between the homeowner himself and the bank, rather than between the dealer and the bank?

Mr. GREENE. Senator, I stated a moment ago that I agreed thoroughly that the program has done a great deal of good. I have suggested a method of coinsurance as a further protection.

I agree with Mr. Olney that complaints generally don't come from homeowners who make that transaction directly with the institution, but most of the complaints and irregularities result from dealer operations.

I would suggest that we not lose sight, however, of the great volume of business that is done by perfectly reliable, responsible, and honest dealers, and I think they should be retained in the program. I think that there should be a contact between the lending institutions and the borrower. Whether or not that is a personal contact or a telephone contact is a question that I am not too certain on in my mind. Bankers have told me that it is very difficult for them to make personal contact or for the borrower to do so, because frequently he has to give up a day's work to get down to the bank to talk to them about it.

Now, if the telephone contact could be made, as provided in the amendments that Mr. Hollyday put into effect last year, I think that will probably correct the difficulty.

Senator LEHMAN. Do you see any reason why the borrower couldn't deal directly with the bank? I mean it might take up a little of his time, but he could go down there and make his deals, after showing the bank what the specifications were for the work, what the estimates were. It would seem to me that it would eliminate many of the abuses which have arisen by reason of the fact that the average homeowner is a man of very little experience in the line of construction, and also has no guidance, which I think he should have, from the lending institutions.

Mr. GREENE. I think there is no question but what it would eliminate a great portion of the abuses—

The CHAIRMAN. Excuse me. Why shouldn't the banker be required to talk to the lender and ask him specific questions that FHA might direct him to ask?

Mr. GREENE. He is required to do it.

The CHAIRMAN. What?

Mr. GREENE. He is required to do it, as I understand it, under the new regulations that Mr. Hollyday put into effect. He is not required by those regulations to make a personal contact. He may call over the phone, and he is required to do that.

The CHAIRMAN. Why shouldn't he be required to sign an affidavit or a statement that is the equivalent of an affidavit, that he has contacted the borrower and has asked him certain specific questions, and satisfied himself that the goods have been properly priced, that they have been properly installed, that there was no fraud, et cetera—just a series of statements. And, that the buyer thoroughly understands what he is doing, knows what he is getting, knows the price, knows from whom he is buying. Why shouldn't that be required?

Mr. GREENE. It is all right, Senator. I only question the necessity of making a personal contact. If the contact is made by phone, it could probably serve the same purpose.

The CHAIRMAN. If the bank is going to guarantee these loans against loss, they should do something for their money.

Mr. GREENE. To me it is not a case of their doing something. It is a case of inconvenience to the homeowner.

The CHAIRMAN. It is no inconvenience to the homeowner, if he wants to borrow \$1,500 or \$2,000 to honestly repair his home. If he wants to do it, and if he isn't being high-pressured by some salesman that wants to sell him something he doesn't need, he is happy to do it and wants to do it. He himself is desirous of knowing that the terms are correct, that the price is correct, and that the delivery is going to be right and that the goods are going to be right, isn't he?

You see, I get a little disturbed with you, Mr. Greene—not you, personally, but all you FHA fellows, because it runs through all your conversations. All your conversations run the same: "We have to be careful here. We can't do this. We can't do that." I think maybe that is one of the reasons why in the past we have had all these troubles, because you gentlemen weren't tough. You didn't discipline these bankers. You didn't say to them, "Get this information or else we just won't finance anything for you." I think that is the trouble with the whole business.

Mr. GREENE. I don't want to leave the impression——

The CHAIRMAN. I am very fond of you personally, and I am not talking about you personally.

Mr. GREENE. Thank you. Since you said that, you have given me the opportunity to say something to you that I want to say.

The CHAIRMAN. Go ahead. Say it.

Mr. GREENE. It is gratifying for me to see the fair and impartial method by which this committee has conducted this investigation.

The CHAIRMAN. Thank you. We appreciate that.

Mr. GREENE. I don't want to oppose what you are suggesting. All I am saying is I doubt whether you need to go that far.

The CHAIRMAN. Thank you.

Senator LEHMAN. May I ask another question?

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. You refer to these regulations that were issued last October by Mr. Hollyday. I think they are sound, the greater part, but after all they are merely regulations, subject to change by the next man who comes in and takes over that part of the work.

Under those circumstances, assuming that they are sound, would you not think that they should be written right into the law, rather than to be left to the discretion of the administrator?

Mr. GREENE. I would certainly see no objection to putting them into the law, Senator.

Senator DOUGLAS. Mr. Chairman?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Two weeks ago when Mr. Frentz, I believe, was on the stand, I inquired whether dog kennels were types of improvements upon which loans would be authorized and insured, and the witness stated at that time that he was not certain.

I find in these slips that I have before me the various types of purposes for which loans would be insured, and I find that item "kennels." Am I correct, therefore, that loans could be made on kennels?

The CHAIRMAN. You are correct, if it is on those slips.

Mr. GREENE. That was the answer I was going to give you.

Senator DOUGLAS. May I ask this: What justification is there for making a loan on dog kennels?

Mr. GREENE. Senator, I would not attempt to justify that, except it was my understanding, and the legislation is so drawn, that counsel has nothing where he can draw the line between one type of improvement and the other.

The CHAIRMAN. It comes from improvements?

Mr. GREENE. Yes.

Senator DOUGLAS. You mean this was done on the advice of counsel?

Mr. GREENE. I don't want to speak for the counsel——

Senator DOUGLAS. Who made the decisions on dog kennels?

Mr. GREENE. The counsel undoubtedly had to pass on that.

Senator DOUGLAS. Doesn't the administrator or the deputy administrator have some responsibility in these matters?

Mr. GREENE. Yes, sir, but not to interpret the law.

Senator DOUGLAS. Now, wait a minute. Under whose name are these administrative orders issued?

Mr. GREENE. Arthur Frentz was the Director of the Division of Assistant Commissioner, in charge of title I.

Senator DOUGLAS. Did he sign the order stating these purposes?

Mr. GREENE. Yes.

The CHAIRMAN. Who was that?

Mr. GREENE. Arthur Frentz.

Senator DOUGLAS. Were those also signed by the administrator of FHA?

Mr. GREENE. No; I don't recall if they were ever signed by the Commissioner of FHA.

Senator DOUGLAS. Were they signed by the Deputy Commissioner?

Mr. GREENE. No, sir.

Senator DOUGLAS. You mean this was signed by the man in charge of title I loans, and no review was given by FHA itself?

Mr. GREENE. Oh, I wouldn't say that no review was given. I think that items of eligibility were discussed in the Title I Division—

Senator DOUGLAS. Who approved dog kennels?

Mr. GREENE. I couldn't tell you.

Senator DOUGLAS. Now, another item: swimming pools and tennis courts. Who authorized tennis courts and swimming pools?

Mr. GREENE. The only answer I can give you as to who approved individual items on that list of eligible items, is that they were approved in the Title I Division.

Senator DOUGLAS. But not reviewed by FHA, overall?

Mr. GREENE. The Title I Division is the operating division.

Senator DOUGLAS. I understand. But did the Commissioner of FHA review these purposes for which loans would be granted?

Mr. GREENE. To my knowledge, he never reviewed—

Senator DOUGLAS. Never reviewed them?

Mr. GREENE. Never reviewed individual items; no, sir.

Senator DOUGLAS. You permitted that section to determine what individual items loans should be made for?

Mr. GREENE. That was their operation, and I am certain that the Commissioner never reviewed individual items, unless it was particularly brought to his attention.

Senator DOUGLAS. What about burglar alarms, then?

Mr. GREENE. The same thing.

Senator DOUGLAS. And fire alarms?

Mr. GREENE. Yes, sir.

Senator DOUGLAS. Don't you think these three items—dog kennels, burglar alarms, fire alarms—are gross abuses of the insuring function?

Mr. GREENE. I don't think they are necessary at all, sir. As I recommended before you came in, practically all of those gadgets should be cut out of the operation.

Senator DOUGLAS. Why were they permitted to come in, in the first place? Why is it necessary for a congressional investigation to take them out?

Mr. GREENE. I understand they came into being by the manner in which the legislation was drawn, and the legal interpretation that we had, to eligible items.

Senator DOUGLAS. You mean that the sky was the limit?

Mr. GREENE. Not exactly the sky was the limit, but if it was an improvement to the house, it was included.

Senator DOUGLAS. How can a dog kennel be said to be an improvement to the house? And how can a burglar alarm be necessary in a one-family house? In a multiple establishment and a commercial

establishment, it might be, but how can it be necessary in a one-family house?

Mr. GREENE. I think it is a lot easier to justify the burglar alarm or the fire alarm than it is to justify a dog kennel.

Senator DOUGLAS. I think it is very hard to justify any of them. Are you going to justify fire alarms in one-family houses?

Mr. GREENE. No. But, as I said before you came in, there are items in there, disposals, dishwashing machines, laundry equipment—

Senator DOUGLAS. I am not going into those items. I am speaking of these items.

Another item is revolving doors. Now, to what degree are revolving doors needed in one-family housing?

Mr. GREENE. I raise the question as to whether that is an eligible item for residential purposes, or apartment houses, but commercial purposes—

Senator DOUGLAS. You mean it would be under a commercial establishment?

Mr. GREENE. Yes.

Senator DOUGLAS. The same would be true of marquees?

Mr. GREENE. I think so.

Senator DOUGLAS. And jalousies—not jealousies, but jalousies.

Mr. GREENE. Jalousies in recent years have become a part of the residential property.

The CHAIRMAN. Mr. Greene, did they ever turn down anything? I would like to see the record of the items that the manufacturers and others have brought in which they turned down. Do you suppose there is such a record?

Mr. GREENE. Senator, I am sure we have. Senator, I am sure we have. And I don't know whether the gentleman the other day was talking facetiously when he said we had insured a loan for alimony. But I want to say that we have heard that every year for the past 20 years. It is not possible for FHA to insure a loan for alimony, if the loan was made for that purpose. It does not become an insured loan.

Senator DOUGLAS. But it is possible to insure a loan for a dog kennel?

Mr. GREENE. Yes.

Senator DOUGLAS. And that has not been changed? That is still true?

Mr. GREENE. Oh, yes. If it is on that list.

Senator DOUGLAS. And tennis courts, too?

Mr. GREENE. I don't know, Senator.

Senator DOUGLAS. The list here says tennis courts.

Mr. GREENE. If it is on the list; yes.

The CHAIRMAN. That list was furnished by the FHA office. I want that understood that it is not our list.

Senator DOUGLAS. Don't you think people who can afford swimming pools and tennis courts normally have sufficient credit to be able to borrow normally from the bank without having Government insurance on these matters?

Mr. GREENE. Yes; I do, Senator. I don't think they are necessary at all under the title I program.

Senator DOUGLAS. You were a Deputy Commissioner of FHA, was you not?

Mr. GREENE. Yes, sir.

The CHAIRMAN. In all fairness, is it possible that the swimming pools and kennels and fire alarms, and things of that nature, were for commercial buildings, commercial institutions, like clubs?

Mr. GREENE. No; I don't think so, Senator.

The CHAIRMAN. You think they were for private individual homes?

Mr. GREENE. I think dog kennels—in fact, I didn't know dog kennels were approved. I haven't checked over the individual items.

The CHAIRMAN. The reason I asked that question is because we don't want to be unfair. It is your opinion that they were for private homes?

Mr. GREENE. I am sure the swimming pools and things like that were.

Senator BENNETT. Mr. Chairman, can FHA title I loans be used for commercial institutions?

The CHAIRMAN. I don't think so, but I want to make certain.

Senator BENNETT. Let's ask that question.

Mr. GREENE. Yes, sir.

Senator BENNETT. But are FHA title I loans available for commercial institutions?

Mr. GREENE. They were, and I think they still are, Senator. They were for some types of improvements to storefronts and things of that nature, in a limited amount. They were also available for apartments, when you added an extra unit. That was incorporated at the time when housing was pretty severe.

Senator BUSH. As far as the Senator's comment about the kennels is concerned, though, I would like to ask, Mr. Greene: Is it not true that the purpose of this title I business was to stimulate construction work, to stimulate improvements on the premises? If a family had a pretty good house and the improvement that they wanted to make was to put in a kennel for the dogs, why doesn't that make work, just as much as putting on a garage for the automobile? They might like it a lot better. If they like their dogs, why not?

Mr. GREENE. In 1934 and 1935 we would be tickled to death to do any kind of work.

Senator BUSH. That is the point.

Mr. GREENE. But I think the country has changed, and I think there is plenty of reason today for leaving those gadget items out of title I and reserving it as an operation for actual important structural—

Senator BRICKER. Will you yield?

Senator BUSH. Yes.

Senator BRICKER. There has been so much talk about dog kennels, do you know whether or not they were built for commercial purposes, or just to take care of pets?

Mr. GREENE. I think it was not for commercial purposes.

Senator BRICKER. Not for commercial purposes?

Mr. GREENE. No.

Senator BUSH. But even if there was, there would be nothing wrong in that, would there?

Mr. GREENE. Probably not.

Senator DOUGLAS. May I say to my good friend that this is an interesting extension that he is giving of a welfare state. I had believed in

the welfare state in housing human beings, but I had never thought it the responsibility of the Government to extend it to putting shelters over dogs.

Senator BUSH. This wasn't a question of shelters, as I understand it. It was a question of improving the premises, to include roads and a lot of other things, as the Senator well knows.

Of course, I have very great question about the whole value of title I, as to whether it oughtn't to be scrapped. That is the question I think we ought to come to here.

Senator BRICKER. The fact is title I was to get money into circulation, and to get business moving.

Senator BUSH. In 1934, yes.

Senator BRICKER. We have long since passed the period when there was any need of that kind. And now they have converted it into a kind of a catchall for people who want to go out and promote business.

Senator BUSH. The further we get into this thing, the more it appears to us that way. And also, the fact that this insurance isn't costing the Government any money, indicates to me, at least, that most of the legitimate work would be and could be done anyway.

The CHAIRMAN. Gentlemen, here is title I. Here is the property improvement loans under title I of the National Housing Act:

Regulations covering class 1 and 2 loans, effective July 1, 1947, including all amendments to December 8, 1953.

Here it says:

New structures: Examples of new structures eligible for a class 2 loan, which may be erected on improved or unimproved real property: barns, garages, service buildings, wayside stands, gasoline stations, tourist cabins, bunkhouses for itinerant farm laborers, industrial or commercial buildings.

I find that the law says:

For the purpose of financing alterations, repairs and improvements upon or in connection with existing structures, and the building of new structures upon urban, suburban or rural real property, including restoration, rehabilitation, rebuilding and replacement of such improvements which have been damaged or destroyed by earthquake, conflagration, tornado, hurricane, cyclone, flood or other catastrophes, by the owners thereof or by the lessees of such real properties under a lease expiring not less than 6 months after maturity.

Senator DOUGLAS. Mr. Chairman?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Greene, was it the original intent of title I for the Government to assume all risks on these loans?

Mr. GREENE. Senator, my recollection—I wasn't very high in the Administration at the time. I was in the field office, as executive assistant to the State director, in Birmingham, Ala. I would say that it was largely the intention to so assume in practically all cases. Let me say in 1934, when FHA first opened up its new offices, we created what was known as better housing committees. They were voluntary committees in every county in the State, and those committees worked hard to get people to borrow money for title I, to make some sort of repair work that would get labor employed. And the primary thought at that time was to get labor employed.

Senator DOUGLAS. Do you think the community knew that or the Congress knew that? Because the provision was that the total amount of any advance should not exceed 10 percent of the total amount of such advances of credit and purchases, I presume under title I. So

that the act was apparently written so that the liability of the Government would be limited to 10 percent of total loans.

Mr. GREENE. I am sure that the originators recognized that 10 percent accumulation would be tantamount to a 100 percent guaranty. You see, for every loan the institution makes——

Senator DOUGLAS. You think that Congress knew that?

Mr. GREENE. I am certain that they did, yes sir. For every loan a lending institution makes, they create a 10 percent reserve, and their claims are paid against that reserve. So, it is tantamount, after they have done any business at all——

Senator DOUGLAS. Whatever may have been the original intent, I am glad to hear you state that in effect this was 100 percent insurance. Isn't that true?

Mr. GREENE. That is true.

Senator DOUGLAS. That is, virtually no bank would lose 10 percent on loans, isn't that true?

Mr. GREENE. They would have to have a very high claims ratio before they would begin to lose any money themselves.

Senator DOUGLAS. All losses up to 10 percent would be assumed by the Government?

Mr. GREENE. Yes, sir.

Senator DOUGLAS. So that in effect this was a 100 percent guaranty?

Mr. GREENE. That is right.

Senator DOUGLAS. Do you think the Government should give a 100 percent guaranty on these loans?

Mr. GREENE. I suggested a moment ago that a coinsurance feature should be introduced into title I.

Senator DOUGLAS. What would you say to a provision that not more than 80 percent or 90 percent of the individual loan should be insured, not 10 percent of all loans?

The CHAIRMAN. That is what he suggested.

Senator DOUGLAS. 80 percent to 90 percent of the individual loan?

Mr. GREENE. I didn't attempt to set the place where you should do it, but I think some coinsurance——

The CHAIRMAN. He recommended that if there were any losses, the bank should take a portion of every loss and the Government take a portion.

Senator DOUGLAS. Had that been considered inside FHA prior to the developments of the last few weeks?

Mr. GREENE. Yes, it was considered from time to time.

Senator DOUGLAS. Why was it not adopted?

Mr. GREENE. Well, it was presumably considered not necessary.

Senator DOUGLAS. Pardon?

Mr. GREENE. Presumably it was considered not necessary or essential.

Senator BENNETT. It would have to come to us for adoption.

Senator DOUGLAS. I know, but they made recommendations.

Senator BENNETT. Yes, they could have recommended it.

The CHAIRMAN. They didn't hesitate to recommend that we increase it from \$2,500 to \$3,000, and lengthen the terms.

Senator DOUGLAS. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Greene, if there are no more questions on title I, let's get into section 608, for the reason that we want to make certain there are no titles in this existing legislation and the proposed legis-

that has already passed the House, that will permit such irregularities that are alleged to have happened. Can you give us any on that?

GREENE. I am not sure whether I can or not, Senator. I certainly will try.

Personally, I cannot reconcile the substantial differences that have been spoken of in connection with the cost estimate of the builder and the cost estimate of FHA.

CHAIRMAN. You say you cannot reconcile the differences?

GREENE. No, sir, I cannot.

CHAIRMAN. You just can't conceive of it?

GREENE. No, sir, I cannot.

CHAIRMAN. You just cannot conceive of your appraisers being taken?

GREENE. I won't put it that way, Senator.

CHAIRMAN. Let me say this: It has been suggested to us—by you, by us, by the public, by the press, by the courts, by the people, by all of us, by all of them, by all Congressmen and Senators—correspondence on this subject. It has been suggested it came about in two ways.

First, the FHA appraisers, of course, were wrong, and the builders did not follow the specifications. Therefore, they were able to build for much less than the specifications called for. So naturally if they did not follow the specifications, if they used cheaper types of materials, it cost them less. So it comes about, we believe, in two ways.

GREENE. Either of those things could happen. I will say to you, Senator, that as long as I was there—and that was all the time—

CHAIRMAN. You were there from the very beginning?

GREENE. That is right. And I never heard of any specific instance that had any unconscionable difference or any substantial difference between our cost estimate and what they were supposed to have estimated the job for.

CHAIRMAN. If the Internal Revenue Service people are correct when they pulled a lot of wool over your eyes too, didn't they?

GREENE. They certainly did. And I will not say the Internal Revenue Service is not correct, but I will say I have seen no evidence at the present time that the Internal Revenue Service is talking about the same set of figures that our cost estimators are talking about.

And I suggest to your committee that a careful analysis be made to see whether or not we are talking about the same thing. Because to me it seems impossible that any such wide differences could

exist, we had heard throughout the years that builders were mortgaging out. There is no news about that, and I don't think that is too far from what was intended. This thing started—

CHAIRMAN. It started back in 1945.

GREENE. Investors are not normally interested in this type of thing.

CHAIRMAN. That interests me very much. We have heard a lot of talk about it since we started this study, this investigation. Haven't they interested in this sort of thing?

GREENE. Well, an investor going into an apartment house transaction, as an investment, in the first place he will put more money into it so that his debts will be less and his equity will be larger. And he will not have any control over his rents, since the control is off now

and he will figure on a much larger return than we permitted under section 608.

The CHAIRMAN. But when he pays his mortgage off, then he can charge whatever he cares to.

Mr. GREENE. Yes. Investors are normally not interested in apartment-house property unless they can construct them on very favorable terms. We had enough investors to get a big job done. So, they turned to the builder, and they turned to the builder to get this job constructed, without any thought of the builder leaving a large part of his funds in that job.

Obviously, a builder, if he is going to follow the building business can't sink a large investment in each one of these 608's that he builds. Therefore, he did try to get out without leaving any equity in the job.

The CHAIRMAN. Well, it has been called to our attention that FHA officials and personnel went out and promoted people to go into this sort of business and promised them and told them that they could get in and get out with a profit, and still own the property. Do you believe that to be true?

Mr. GREENE. Senator, as a matter of record, there is no question but what we promoted it and promoted it hard, all over the country, in order to get builders to go into this operation.

The CHAIRMAN. You think they were encouraged to believe they could make money on it, and still own them?

Mr. GREENE. I don't believe, to my knowledge, any were told that they did not have to leave an investment in it. I remember the day that large placards were printed up that we used in those promotional meetings, and I recall the figures came out very decisively as the result of earning on his equity—

The CHAIRMAN. What years were these?

Mr. GREENE. 1946, 1947, 1948.

The CHAIRMAN. Right after the war.

Mr. GREENE. Yes.

Senator BRICKER. Do you believe the amendment that was passed by the Congress in 1947 in regard to this particular feature of section 608 was followed?

Mr. GREENE. I don't recall, Senator.

Senator BRICKER. Evidently they paid no attention to it, then. This was brought to the attention of the FHA officials in a hearing before this committee, and we attempted there to limit the amount of mortgage to the average cost. And the protest was made by officials of the FHA to the effect that that wouldn't work, that you couldn't do it.

Then we wrote a restrictive amendment in the bill, as a warning to the FHA, that it was the intent of Congress that these loans be limited as near as possible to the actual cost of the building.

These incidents were common experience with all of us. I brought some to the attention of the committee and, under the protest of the officials, we didn't put the absolute prohibition in there as to cost. But we did write a restrictive amendment—I put it in the record a few days ago—and FHA paid no attention to it at all, because it was after that period that some of these extravagant loans were made.

Mr. GREENE. Senator, I don't have any record, but I feel pretty certain that was in the legislation when FHA did do something to implement it.

Senator BRICKER. There was no policy change, was there?

Mr. GREENE. I think there must have been; yes, sir.

Senator BRICKER. Do you know what it was?

Mr. GREENE. No, I do not.

Senator BRICKER. Will you check and find out, if you can?

(The information referred to will be found in the appendix, p. 1967.)

Mr. GREENE. If I can, I will do that.

Senator BRICKER. I would like to know if we are just passing legislation vainly here, or whether the amendments mean anything.

Mr. GREENE. No, I don't think so, sir. I don't think that was the case in any of the operations of section 608, and I know there were discussions with regard to this, in this committee, for example, at different times. I think particularly in 1949 there were certain discussions on it.

The CHAIRMAN. Mr. Greene, you have been with this organization since its inception. You know Mr. Powell, do you not?

Mr. GREENE. Yes, sir.

The CHAIRMAN. He was, I think, likewise with the organization since its inception. Mr. Powell refused the other day to testify before this committee. Having been there during its inception, and Mr. Powell having been there during its inception, which meant I presume that you and he were in close contact, together each day, all the time, do you know any reason why Mr. Powell should refuse to testify before this committee?

Mr. GREENE. I do not.

The CHAIRMAN. Did anything happen over there, to your knowledge, that would make it impossible for him to testify?

Mr. GREENE. No, sir, I do not. I do not know why Mr. Powell refused to testify. Presumably for some reason his attorney advised him to take that course. I was very sorry to see it.

The CHAIRMAN. He was closer to the section 608 projects than you were.

Mr. GREENE. He was in charge, yes, of the responsibilities—

The CHAIRMAN. Did he have the final say, for example, if an appraiser appraised the building, at say a million dollars, and the builder thought it ought to be a million two hundred thousand, and he came in here and made a protest and came in to see FHA and saw Mr. Powell. Did Mr. Powell have the complete 100-percent authority to increase it from a million to a million two?

Mr. GREENE. Let me explain to the committee that the underwriting operations were conducted in one department and the administrative in another. Mr. Powell was in charge of the administration of 608. The cost estimates on 608 were made in the underwriting division. Now, a builder coming in and complaining about—

The CHAIRMAN. Let's say a builder came in, and your appraiser said a million dollars, that he would commit 90 percent of a million, and he thought that was too low and he came in here. Then did Mr. Powell have the authority to increase it to \$1,200,000 if he wanted to?

Mr. GREENE. No sir.

The CHAIRMAN. He did not? Who did have that authority?

Mr. GREENE. Well, no one person had that authority.

The CHAIRMAN. What committee had the authority?

Mr. GREENE. The cost estimation and the commitment was written up in the local office—

The CHAIRMAN. You know, of course, that many of them were changed by the Washington office, do you not?

Mr. GREENE. Many of them were changed; yes, sir.

The CHAIRMAN. Increased. You know that, do you not?

Mr. GREENE. Yes, sir.

The CHAIRMAN. Who had the authority to increase them, if Mr. Powell didn't?

Mr. GREENE. The local office had to recommend it, and it had to be reviewed by the administrative section here, who ran the case through underwriting prior to their approval of it.

The CHAIRMAN. That was a committee, was it?

Mr. GREENE. Not necessarily.

Senator DOUGLAS. Who was in charge?

The CHAIRMAN. Who had the final say as to whether they were increased or were not? Somebody must have had to be, either the committee or an individual. We want to get the name of the individual, or, if it was a committee, the committee, because we want to talk to them, very frankly.

Mr. GREENE. Let me explain how the dual operation in FHA works. We have an underwriting division, that is composed of technicians. It is their responsibility to make recommendations to the State director that a loan be insured, and in the amount that it should be insured, or that it be rejected.

The CHAIRMAN. Yes.

Mr. GREENE. Now, the chief underwriter in charge of that operation in our local office may not insure a loan. He has no authority to insure a loan. All he can do is to make a recommendation.

The CHAIRMAN. To whom?

Mr. GREENE. To the State director.

The CHAIRMAN. Yes.

Mr. GREENE. The State director has the authority to insure a loan. If he disagrees with the chief underwriter's recommendation, he may not change it. He may state his disagreement to the Washington office.

The CHAIRMAN. That is the State director?

Mr. GREENE. Yes.

The CHAIRMAN. But I am talking about the builder now, who disagrees.

Mr. GREENE. Let me follow through—

The CHAIRMAN. They came in and got an increase. There were many instances of that. Who approved it?

Mr. GREENE. They would take the same course I am telling you about. If there was disagreement between the chief underwriter and the State director, the case was sent to Washington, and both wrote a memorandum expressing their viewpoint. That was then reviewed by the underwriting division here and the administrative division here. If they could not settle the matter, the case came either to myself or the Commissioner for final settlement.

The CHAIRMAN. And you would either approve or disapprove?

Mr. GREENE. Yes, sir.

The CHAIRMAN. Would you say in every instance whether they were or were not to be increased or Mr. Richards?

GREENE. I know of no single case that came to either Mr. Richards or myself along that line. They were all worked out by the administrative and underwriting divisions.

CHAIRMAN. Then you would say in every instance where they increased that either you or Mr. Richards, or both, approved it?

GREENE. No. I would say they were settled before coming to Richards or myself.

CHAIRMAN. Do you have any knowledge of ever approving an increase in an appraisalment?

GREENE. I do not. There may have been 1 or 2, but I don't know.

SENATOR BRICKER. Mr. Chairman?

CHAIRMAN. Senator Bricker.

SENATOR BRICKER. During the time of this promotion program under section 608, was FNMA making advance commitments?

GREENE. I believe so, Senator.

SENATOR BRICKER. That is what I thought.

SENATOR BRICKER. I want to read to you an amendment that was passed by the Congress in the 80th Congress, 1st session. Chairman Tobey was chairman of this committee, and Senator Capehart and I were both on the committee at the time, and I know he will also remember the discussion we had. After the opposition of the officials from the Department to tying this down too tight, we amended the law to read as follows:

Section 2, title VI of the National Housing Act, as amended, shall be employed in maintaining a high volume of new residential construction, without incurring unnecessary or artificial costs. In estimating necessary current costs for purposes of said title, the Federal Housing Commissioner shall, therefore, employ feasible means to assure that such estimates will approximate as closely as possible the actual costs of efficient building operations.

SENATOR BRICKER. Boots worked on this, and Mr. McMurray worked on it, for a long time, and it was discussed in this committee, and we felt that we should tie down the Department pretty close to the actual cost of the building programs or operations.

SENATOR BRICKER. Did the Department take any note of this, and did they change policies in any way as a result of that amendment? (See p. 1674.)

GREENE. Senator, I cannot tell you what they did. I do not have the records available. But I am confident that they did, and I am sure you can have presented to this committee the records of what they did. I remember the occasion, and I am sure something was done to implement those instructions.

SENATOR BRICKER. Who could give us that information?

GREENE. Anyone over in the FHA that has the records available.

CHAIRMAN. Maybe the General Counsel, who will be our next witness.

SENATOR BENNETT. Before we move off this question, may I have the opinion of the Senator from Ohio. I asked the same question with reference to FNMA participation in section 608 of Mr. Hughes, the Chairman of the Home Builders, and was given a categorical answer, that FNMA made no advance commitments to section 608, that they did not make by private lenders; that they were not involved in that matter.

SENATOR BENNETT. I don't know where the facts lie, but that was his testimony, as I understand it, a couple of days ago.

Senator DOUGLAS. Mr. Chairman?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Greene, you have said that the decision as to whether or not the local appraisal was correct was made in the administrative section, but was not made by you; that it was made before the decision reached you. By whom, then, was it made?

Mr. GREENE. It was made between the Director of the Multi-Family Housing Division and the Director of the Underwriting Division.

Senator DOUGLAS. And who were they?

Mr. GREENE. Clyde Powell was the Director of the Multi-family Housing Division, and Mr. Curt Mack was Director of the Underwriting Division.

Let me say, Senator, so that we keep it in proper proportions. I think there were only a handful of cases that ever came to Washington as a result of the dispute in the field office. Most of the decisions were made in the local office.

Senator DOUGLAS. You mean that the builders and the State directors reached the agreement?

Mr. GREENE. Yes, sir, except for increases. As I recall it, increases could not be made after the commitment was issued. They were only made where the builder was subjected to costs beyond his control, like increased taxes or increased operating expenses or something like that.

Senator DOUGLAS. But the estimates of original cost were arrived at between the State directors of FHA and the builders?

Mr. GREENE. And the underwriting division.

Senator DOUGLAS. Suppose the builder felt that the State director had not approved a sufficient commitment. He had the right of appeal, did he not?

Mr. GREENE. Oh, yes. He always had the right of appeal.

Senator DOUGLAS. Did he always exercise that appeal?

Mr. GREENE. Yes, he did.

Senator DOUGLAS. So that some of the cases did come to Washington?

Mr. GREENE. The case wouldn't come to Washington unless there was a disagreement between the State director and the chief underwriter.

The CHAIRMAN. Or the builder felt that it was too low?

Mr. GREENE. If the builder felt it was too low, and came to Washington, we might review the case.

The CHAIRMAN. You did, in many cases. That was my point a moment ago. When he came to Washington—there have been instances which we will show later, in which they were increased. Who handled it here? Who had the final decision on that?

Mr. GREENE. When the builder came to Washington, he would probably go to see Mr. Clyde Powell, the administrative officer of section 608. But if Mr. Powell felt a review of the case was necessary, he would probably ask the Underwriting Division to get the case in and review it.

Senator DOUGLAS. Did Mr. Powell have the power to increase the authorization which had been _____ed by the State FHA director?

Mr. GREENE. I think _____al law that he probably had the power, but it _____instance that I know of. If

Mr. Powell wanted to increase it, or felt that it should be increased, he discussed it with the Underwriting Division.

Senator DOUGLAS. It was a joint decision?

Mr. GREENE. It was a joint decision.

Senator DOUGLAS. But not a decision in which you took part?

Mr. GREENE. Only if there was a disagreement between those two.

Senator DOUGLAS. Did this ever occur?

Mr. GREENE. I don't recall any specific instances in which it occurred. There may have been 1 or 2.

Senator DOUGLAS. Are you acquainted with an article which appeared in the Architectural Forum in, I believe, the early winter of 1950, which pointed out the abuses then going on in section 608?

Mr. GREENE. Yes, sir; I think I know the one you are speaking of, and I think it was an excellent article.

Senator DOUGLAS. Well, that was in the winter of 1950. Senator Long and I raised the point at the time, inside the committee. What action did you take on the basis of the material presented in this article in the Architectural Forum? That article was in January 1950.

Mr. GREENE. I don't recall, Senator, specifically whether any action was taken. I recall the article. I thought it was pretty fair in its criticisms.

Senator DOUGLAS. The article, as I remember it, pointed out the way in which the ostensible 90 percent guaranty of cost was in fact, in many cases, a guaranty of over 100 percent. As I remember it, they ran into 3 main groups: First, the fact that the builder in many cases was also the general contractor and, in some cases, the subcontractor, and therefore received the 5 percent and I believe 3 percent markups granted; that he was also in many cases furnished the architectural draftsmanship and work, and the legal work, and that the fees for these services amounted generally to—including the contractor's and subcontractor's fees—10 percent of the cost of building, so that any need for a cash contribution, for other than these services, was removed.

Then, secondly, that the builder or the developer would buy raw land on the basis of a tentative commitment from the FHA, and that having bought the land the value of the land would then rise, and the loan would be insured on the basis of the land after purchase, thus giving the benefit of the writeup in the value of the land.

And, third, the point that the chairman just mentioned, that in many cases the appraisals by the FHA appraisers, on the basis of normal costs, were appreciably in excess of actual costs.

All these points are made in this article in the Architectural Forum, copy of which I now hold in my hand and which I give to you. The Architectural Forum is a very reputable publication. Senator Long and I read that article, and we were much alarmed and raised the point, but we were assured by FHA that our fears were more or less unfounded, as I remember the discussion.

I don't want to be unfair to FHA, but why didn't FHA take to heart this criticism from the Architectural Forum, which was made when the program was at its height?

Mr. GREENE. Senator, I think we did.

Now, let me try to explain this. In the first place, this article was answered by another article, also running in the Architectural Forum.

On the matter of markup on the land, it has been the system all through section 608 to appraise the land according to its replacement value, or its comparable value to another site for the same purpose, which is—

Senator DOUGLAS. Is it not true that the developer would buy the land at a low price per acre, and then the loan would be made on the basis of a high value per acre?

Mr. GREENE. The loan would be made on the basis of what that property was after it was completed. He may have had to spend a lot of money for utilities and streets, and so forth. But, when he completed the land—

Senator DOUGLAS. But the land would increase in value not merely by the amount of the improvement, but by an added amount.

Mr. GREENE. That I do not know, unless he made a good buy or an unusual buy. The land was supposed to be put in at a comparable—

Senator DOUGLAS. Well, the—pardon me, I'm sorry, Mr. Greene. I didn't want to interrupt. The commitment itself would increase the value of the land, would it not? The mere fact that the commitment had been made would send the value up.

Mr. GREENE. I don't think so, Senator.

Senator DOUGLAS. It was so charged by the Architectural Forum.

Mr. GREENE. I don't think that is correct. In other words, the thought behind that is that, because a project has been put together and is situated on this site, that the site becomes more valuable. To me—and I have done some appraisal work—the project doesn't become more valuable. Any income is due to the project itself, not the site alone, but the site, plus the building upon which you get the rent. I don't think the site is ever worth any more than you—

Senator DOUGLAS. Let me ask you this: In the final appraisals of cost, what was taken as the value of the land, streets, water, sewage systems, and so forth? Was it merely the actual cost of the land, plus the cost of these improvements, or was it the cost of improvements, plus the value of the land, the estimated value of the land after the improvements were made and after the project was completed?

Mr. GREENE. The land was not cost estimated. It was put in as a value.

Senator DOUGLAS. That is just the point. If the cost of the land was less than the estimated value, the developer would therefore make a large profit, would he not, upon the transaction?

Mr. GREENE. He would make any profit between what it cost him to produce the land and the value put in.

Senator DOUGLAS. That is just the charge which the Architectural Forum made, which Senator Long and I made, which you said didn't previously exist. Do you think it was the intent of Congress in passing section 608, that the builders should make a profit upon the construction of the houses, or the loans, that they should make a profit upon the rental of the building after it was completed? Was that the intent?

Mr. GREENE. I don't know what the intent of Congress was, but it would be my guess that it was something of that nature, that we were faced with a critical housing shortage and housing had to be provided. And, under the circumstances that existed at the time, it was not reasonable to expect investors to come into that market, put-

ting in large equities, to provide a half-billion units. It never had happened and I don't think we could expect it to happen then.

So, some inducement had to be given to get these jobs done. The inducement was section 608, which was set up in such a manner that a builder could go in without making a substantial equity. Normally, he was supposed to have left at least the value of the land—

Senator DOUGLAS. He could go in without making any equity contribution; could he not?

Mr. GREENE. If he could produce a job for any less cost than the cost estimate.

Senator DOUGLAS. Didn't that happen in a very large number of instances, so that no equity was made whatever, and it amounted to insuring stock of merely 100 percent, but in many cases 110 and over? The 1,179 cases that were submitted to us were merely those cases where the value insured was more than 110 percent of the cost. It didn't take into account where the range was between 100 and 110 percent.

Mr. GREENE. Senator, that can happen on a section 608. It is always possible and has always been known, so far as I know, that it was possible for an efficient builder, who could build for less than our cost estimate, to come out of the deal with little or no equity, or possibly make a slight profit.

Senator DOUGLAS. What about these other items that I mentioned? The general contractor's fees, architectural fees, legal fees, would come, as a matter of fact, to about 10 percent, so that the contribution of those services was taken in lieu of a cash contribution by the builder.

Mr. GREENE. I think that the fees for architects, and the builders' profit, are entirely normal.

Senator DOUGLAS. Yes. But the contributions on these items were services, and not much cash outlay.

Mr. GREENE. I think it was never intended that the builder have much cash outlay.

Senator DOUGLAS. In other words, it wasn't to be 90 percent insurance, but 100 percent insurance.

Mr. GREENE. I think the 100 percent insurance was entirely possible and was understood to be entirely possible all the way through our operations of title VI.

Senator DOUGLAS. Did FHA, in promoting section 608 projects, point out to the contractors that they could make these contributions—

The CHAIRMAN. Just a minute. Mr. Greene, if what you say is true here, why did we write in 90 percent of the cost?

Mr. GREENE. Ninety percent of FHA's estimated replacement costs, Senator. And I am sure no loan ever exceeded that amount.

The CHAIRMAN. No loan ever exceeded that amount?

Mr. GREENE. Of FHA's estimated replacement cost.

The CHAIRMAN. You don't think any loan ever exceeded that?

Mr. GREENE. Not of the replacement cost.

Senator DOUGLAS. You are talking in terms of replacement cost. What about the builder's cost?

Mr. GREENE. Senator, we didn't know the builder's costs. The builder didn't know his costs himself at the time we issued the commitment.

The CHAIRMAN. But why, if the building was completed, Mr. Greene, and the builder knew exactly what it cost, why then didn't you have a system where you went back and adjusted the cost?

Mr. GREENE. Senator, it was not provided in the legislation. It was discussed at the time and not accepted, or turned down, so we never introduced it.

Senator BRICKER. You mean you couldn't have looked at the cost after a building was completed?

Mr. GREENE. We didn't have the costs available.

Senator BRICKER. You could have found it, under the law.

Mr. GREENE. We had no right to require it under the law.

Senator BRICKER. Oh, yes; you do.

Mr. GREENE. Under the charter, we have. Now, let me get off on that tangent just a minute. We did know, and I want to make this clear, that we had financial statements submitted to us annually.

The CHAIRMAN. By the owners of the section 608 projects?

Mr. GREENE. Yes. Those financial statements would have shown amounts left in the corporation after the job was completed.

Now, presumably those amounts that were left in the corporation after completion of the job would represent mortgaging-out property. They could represent other things. During that time section 608 mortgages were selling at premiums of anywhere from 1 to 5 points. They could have represented a premium that he made on that loan.

Now, we did get those financial reports and, Senator, we did not have people to analyze those reports. And I appealed to the Appropriations Committee on many occasions. I hope you will permit me just to read to you one—

The CHAIRMAN. Let me ask you this question: Suppose you had had sufficient people, and suppose you had found in every instance that they did have considerable money left over. What could you have done about it and what would you have done about it?

Mr. GREENE. I think the only reason they could have it left over, Senator, would be that our cost estimates would be out of line.

The CHAIRMAN. Either that, or they cheated on their construction.

Mr. GREENE. Either the cost estimate was out of line, or our procedure was out of line.

Now, let me call your attention to the fact that we did not have any indication of those things. We were running concurrently with this for a good part of the time the military housing program, in which in order to select a building the builders bid on the job. Under the military housing program we made a cost estimate, and the military put that cost estimate out to the builders, and on their invitation to bid, and bids came in from them, the low bidder getting the job.

So there was every reason for a builder to bid as low as he could, if he wanted that job.

Now, in all of the cases that ever came to my attention, our cost estimation showed up good in relation to the individual bids of private builders on those jobs. Where there were 9 builders bidding, we might be the second lowest, and it was not uncommon for us to have a low bid out of 6 bidders. Those were things that gave you confidence in your estimation.

On the other hand, we knew that the
that we were taking the broad
going to process any cases, be

ages of this operation
take it if we were
of a large apart-

at house and make a cost estimate, would take 60 to 90 days. It would be a long job. We would never have gotten any cases processed if we followed that procedure.

So, we put in a simplified cost-estimation procedure, and any simplified cost-estimation procedure can go haywire, we realize that. So we were looking for these things from time to time to see if there was evidence that it was going that way.

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Chairman, the witness I believe just previously said that they always recognized in FHA that section 608 might go to 100 percent or more insurance of replacement cost. Didn't I say that?

Mr. GREENE. Yes, sir.

Senator DOUGLAS. I would like the witness to turn to section 608 of the National Housing Act.

Mr. GREENE. I don't have it here.

Senator DOUGLAS. Can someone supply him with a copy. That is section 608, subparagraph (b), page 10. I would like to have the witness check my reading. That is page 10.

Mr. GREENE. Yes, sir.

Senator DOUGLAS. Describing section 608, it says:

The mortgage must involve a principal obligation in amount (a) not to exceed \$1 million, and (b) not to exceed 90 per centum of the amount which the Commissioner estimates will be the necessary current cost of the completed property project, including the land; proposed physical improvements; utilities within boundaries of the property or project; architects' fees; taxes and interest accruing during construction; and other miscellaneous charges incidental to construction and approved by the Commissioner.

Have I read that correctly?

Mr. GREENE. Yes, sir.

Senator DOUGLAS. It continues:

provided, That such mortgage shall not in any event exceed the amount which the Commissioner estimates will be the cost of physical improvements on the property or project, exclusive, exclusive of off-site public utilities and streets, organization and legal expenses.

So that it would be not more than 100 percent.

I now call the witness' attention specifically to the sentence now following:

and provided further, That the principal obligation of the mortgage shall not in any event exceed 90 per centum of the Commissioner's estimate of the replacement cost of the property or project on the basis of the cost prevailing on December 31, 1947, for properties or projects of comparable quality in the locality where such property or project is to be located.

Obviously, the intention was 90 percent of replacement cost, not 100 percent of replacement cost.

Mr. GREENE. Senator, I think, if I may, there is a little confusion here. If you refer to the (b) item, it says—

to exceed 90 per centum of the amount the Commissioner estimates will be the necessary cost of the completed property or project—

and so forth. Now, the proviso on down below there, as inserted, does not change the provision under (b) at all, except that at that time it is required in finding the replacement cost of the property that we should not use costs any higher than those of December 31, 1947, and

from then on all costs were figured on the basis of December 31, 1947, unless it was lower than that.

Senator DOUGLAS. Well, then that means that you were not to make insurance for more than 90 percent of replacement cost, not 100 percent, not 110 percent, not 140 percent—but not more than 90 percent.

Mr. GREENE. Senator, I call your attention to the fact that it is an FHA estimate of replacement cost. We never made a loan below that amount.

Senator DOUGLAS. Your estimates were presumed to have some relationship to reality, were they not?

Mr. GREENE. Indeed they were.

Senator LEHMAN. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes. The whole problem revolves around this: Who made the mistake in the difference between 90 percent of the estimated cost and the actual cost. The records indicate at the moment in many, many instances, that the difference between the actual cost and 90 percent of the estimated replacement cost was a very, very sizable sum of money. Now, who made the mistake?

Mr. GREENE. May I suggest to you that we take just one of these cases, and that your committee analyze that case. Let's take one where there is a substantial difference between the builder's cost and our cost, and let's analyze that case, or two or three of those cases, and see wherein the difference occurred between them, see if the items are comparable, and see if you can recognize those substantial differences.

The CHAIRMAN. We are going to do that as we get into this investigation.

Mr. GREENE. Let me say to you if I can be of any assistance to your staff in analyzing any of those cases, you may have my services free.

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. Doesn't it boil down to this fact, that the cost estimation procedure to which you referred was defective, and that your cost estimates really were higher than would justify under all circumstances?

Mr. GREENE. If these substantial differences occur, it was either the cost estimation that was defective, or our inspections were defective.

Senator LEHMAN. Because here I don't think it was ever the intent of Congress to guarantee a loan so high, so much in excess of the actual cost of the project that the builder was able to mortgage out and have a very handsome profit.

Mr. GREENE. I don't believe that was ever intended.

Senator LEHMAN. It seems to me it is perfectly true that the law says 90 percent of the estimated replacement value of the project. And you say that you never deviated from that. But if it is true that the estimated cost on which a mortgage was based, exceeded the actual cost by a very large amount, to me it could mean only one thing, and that is that your cost-estimation procedure had broken down and was entirely out of line with the facts.

I don't see how there could be any other explanation.

Mr. GREENE. I agree, Senator, and I can't reconcile in my own mind that such broad differences could result, except for one thing: In this abbreviated cost system which we introduced, it would be possible for a substantial difference to occur—in any abbreviated system that you use. However, they were tested, and the results of the tests sent into

hington before they were permitted to adopt it, and I think real precautions were taken against it.

Senator LEHMAN. One other question: In the earlier part of your mony on section 608, you said that you just couldn't reconcile the differences between the Internal Revenue Service figures and the FHA figures, and, therefore, you felt that possibly different sets of figures were used by FHA and the Internal Revenue Service. Will you explain somewhat on that? I just don't know what you mean, because figures that we get from Internal Revenue Service are supposed to be accurate.

Mr. GREENE. I have no doubt that they are accurate in respect to what they purport to be, but I raise the question, and I am doing this because I am floundering as to the reason for these broad differences. I don't reconcile them in my own mind. And I am only suggesting to the committee let's be sure we are talking about the same thing.

Mr. CHAIRMAN. I think we are. It may be a lot of people that have a lot of wool over your eyes.

Mr. GREENE. I don't think so, sir.

Senator BUSH. Mr. Chairman?

Mr. CHAIRMAN. Senator Bush.

Senator BUSH. I would just like to ask this question: It would come from your description of the procedures that a great deal of responsibility devolves upon the appraiser or the estimator. Actually, the amount of the loan was pretty much determined by the appraiser's figure, was it not?

Mr. GREENE. Yes, Senator. That is true, except we did have a system of review of the appraiser's work. I mean the cost of estimator's work had to be reviewed by the chief of the cost estimation division, and that had to be reviewed by the underwriter.

Senator BUSH. Let me ask you this: Did you ever have to take any disciplinary—did the FHA ever have to take any disciplinary action any time against these appraisers, any of them individually, on the basis that you might have suspected or found out that they had been accepting bribes or fees in connection with these estimates or appraisals?

Mr. GREENE. We have taken disciplinary action against people in local offices, Senator. I wouldn't be in a position to say they were directly the result of taking a bribe in connection with section 608, but there was some irregularity either in connection with section 608 or one of the other sections. Whenever anything of that nature came to our attention, in every instance I know of—and Senator Lehman knows of those—we took remedial action.

Senator BUSH. I wonder if there is any individual instance that you can recall, where the appraiser, or the people in your local offices who had primary responsibility for these appraisals, were subject to censure by the FHA, or dismissal, for accepting fees or persuasive offers of any kind from these contractors who were interested in getting high appraisals on work.

Mr. GREENE. I don't recall a situation like that. There were some people who were just as bad, in a sense. We did have situations where we found that our processing personnel were engaging in outside activity contrary to our rules, in connection with plans submitted and processed by them, and we dismissed them.

Senator BUSH. But you don't recall any specific instance where the disciplinary action was connected with the matter of accepting fees or persuasive gifts from contractors who were interested in getting a high appraisal?

Mr. GREENE. No, I don't recall that specific type of a case.

The CHAIRMAN. Well, you did have some dismissals, did you not? Didn't you have some scandals in Baltimore? Weren't there some indictments up there, and convictions?

Mr. GREENE. I don't think there was an indictment. The former director died a short time ago.

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Greene, did you know that commitments once obtained were being sold for substantial sums before any investment at all was being made in the property?

Mr. GREENE. We heard a great deal about that at one time, Senator, and we tried to look into it and find out. And every time we tried to run a case down, we found out that what was being sold was not the commitment but the stock in the whole corporation.

Senator BENNETT. Does that have the same effect?

Senator DOUGLAS. I was going to ask that.

Mr. GREENE. We can't control a corporation—

The CHAIRMAN. Under the charter, you had the right, did you not, to control that?

Mr. GREENE. Not the sale of individual stock; no, sir.

Senator DOUGLAS. Was not that a clear indication that they were making a profit above cost, because otherwise they would not be able to sell the blue sky for a consideration.

Senator BENNETT. Just to make the record clear, were these sales made before construction began?

Mr. GREENE. Senator, I don't know. I never had considerable cases before me. I only recall that the customary practice was for someone to sell his stock in a corporation.

The CHAIRMAN. I would like to say for the record, Senator Douglas, that this Architectural Forum article you referred to was placed in the record in January 1950 by Senator Sparkman. It was made a part of the record as far back as 1950.

Are there any other questions of Mr. Greene?

Have you anything further to say, Mr. Greene?

Mr. GREENE. I have two things I would like to say to you.

The CHAIRMAN. Is it your thought or feeling that there are any proposed titles in this legislation before us that are susceptible to the same sort of irregularities and abuses that we have been talking about and hearing about under section 608?

Mr. GREENE. Susceptible, but not to the same degree. Section 207 is susceptible to the same thing, except that it does require the maximum mortgage.

The CHAIRMAN. Is there any reason why we should write into the law that you give them a commitment for 50 percent or 90 percent, or whatever it is, and then, when the project is finished, they take a total cash and swear to it by an affidavit?

Mr. GREENE. No reason at all.

The CHAIRMAN. Will it hurt

in this proposed

Mr. GREENE. I think you can look at it this way, that there is a difference in the economic conditions.

Now, if you were asking me that question, particularly at the beginning of section 608, I could tell you very frankly that it might slow down the operation.

The **CHAIRMAN.** You mean it might have slowed down section 608?

Mr. GREENE. Yes.

The **CHAIRMAN.** But you think that the proposed bill before us, where we have the same principle of Government making an advance commitment to insure a mortgage for X amount, whether it be 80 percent, 90 percent, you think that we ought to write into the law that when the project is finished the true costs be ascertained and the mortgage adjusted accordingly.

Mr. GREENE. I think it would be very helpful.

The **CHAIRMAN.** Are you doing that at the moment under existing titles, under the present law?

Mr. GREENE. We do that under military housing and under title IX, defense housing; yes, sir.

The **CHAIRMAN.** You are doing that?

Mr. GREENE. That is required by law.

The **CHAIRMAN.** Then, is it your opinion that there is no possible chance for mortgaging-out or any profit to be made on initial construction under title IX?

Mr. GREENE. The law provides for a certain duplication and if there is a mortgage-out, he has to pay it back. There is a provision, I believe, in title IX certification, that they must pay it back within 90 days. Now, I suggest that you consider it.

The **CHAIRMAN.** Without objection, we will place into the record a form, Contractor's Certificate of Actual Cost, for use under section 608. And here are other forms, the Mortgagor's Certificate of Actual Cost and the agreement and certification that are required. That is the result of a law passed by the Congress, passed by this committee, is it not, in 1951?

Mr. GREENE. Yes, sir.

(The form referred to follows:)

HA Form No. 3378A

Form approved
Budget Bureau No. 63-R776

CONTRACTOR'S CERTIFICATE OF ACTUAL COST

(For use under sec. 908)

(Mortgagor)

Project No.-----
Project name.-----
Location.-----

WITNESSES:

This certificate is made pursuant to the provisions of the construction contract, entered into by and between us under date of-----, and it is understood and agreed by the undersigned that this certificate is to be submitted by us to the Federal Housing Commissioner in order to induce the Commissioner finally to indorse the mortgage for insurance.

The actual cost incurred in the completion of construction under the above construction contract and accepted construction changes exclusive of off-site utilities and streets and all kick-backs, rebates, and normal trade discounts received in connection with the construction of the project is itemized below.

Subcontractors

Name	Type of work	Amount
Miscellaneous		\$

Total amount of subcontracts

(NOTE.—Subcontracts of less than \$1,000 each may be included as a lump sum under miscellaneous.)

Materials (not included in subcontracts)

Purchased from

Amount

Miscellaneous	\$
---------------	----

Total cost of materials used

(NOTE.—Total purchases of materials amounting to less than \$1,000 from a dealer may be included as a lump sum under miscellaneous.)

(NOTE.—If additional space is required, append rider with appropriate references thereto, and initial rider.)

Labor (not included in subcontracts)

Type	Amount
Carpenters	\$
Masons	
Plumbers	
Electricians	
Common	
Superintendents	
Watchmen	
Other (itemize)	
Miscellaneous	

Total cost of labor

(NOTE.—Cost of labor other than as classified above amounting to less than \$1,000 for a particular class may be included as a lump sum under miscellaneous.)

Job overhead

Item	Amount
Insurance during construction, all types	\$
Light and power	
Telephone and telegraph	
Water	
Other (itemize)	
Miscellaneous	

Total for job overhead

(NOTE.—Job overhead for items other than as listed above amounting to less than \$1,000 per item may be enumerated and included as a lump sum under miscellaneous.)

TOTAL COST \$

(Contractor)

By

WARNING

U. S. Criminal Code, Section 1010, Title 18, U. S. C., "Federal Housing Administration transactions", provides in part: "Whoever, for the purpose of * * * influencing in any way the action of such Administration * * * makes, passes, utters, or publishes any statement, the same to be false, * * * shall be fined not more than \$5,000 or imprisoned not more than two years, or both."

FHA Form No. 3378

 approved
 Bureau No. 63-2777

MORTGAGOR'S CERTIFICATE OF ACTUAL COST

(For use under section 908)

Housing Commissioner

of _____ Project name _____
 _____ Location _____
 No. _____

is: This certificate is made pursuant to the provisions of that agreement
 location of _____ and in order to induce you to finally endorse
 age for insurance.

ual cost to the owner of labor and materials and necessary services in
 with the construction of the physical improvements on the mortgaged
 (exclusive of off-site utilities and streets, organization and legal ex-
 d all kick-backs, rebates and normal trade discounts) is as follows.
 of construction is (is not) ¹ supported by FHA Form 3378A, Contrac-
 tificate of Actual Cost.

Item	Amount
ion contract _____	\$ _____
nt for acceptable construction changes (plus- _____	_____
s fee _____	\$ _____
r's fee _____	_____
ct amount as adjusted _____	_____
uring construction _____	_____
ing construction _____	_____
paid by mortgagor for insurance during construction _____	_____
tgage-insurance premium _____	_____
nination fee _____	_____
ection fee _____	_____
expense _____	_____
recording expense _____	_____
imize) _____	_____
il _____	_____

(Mortgagor)

By _____

WARNING

States Criminal Code, section 1010, title 18 United States Code, "Fed-
 ing Administration transactions," provides in part: "Whoever, for
 ie of * * * influencing in any way the action of such Administration
 es, passes, utters, or publishes any statement, knowing the same to
 * * * shall be fined not more than \$5,000 or imprisoned not more than
 both."

No. 3377
 y 1953

AGREEMENT AND CERTIFICATION

(For use under section 908)

reement made this _____ day of _____, 19____, by and between
 _____, a _____
 n (hereinafter called Mortgagor), _____
 _____ corporation (hereinafter called Mortgagee),
 ederal Housing Commissioner (hereinafter called Commissioner);
 AS, Mortgagor has applied to Mortgagee for a mortgage loan in the
 \$ _____ for the purpose of erecting a housing project to be
 _____ and identified as FHA
 _____; and

AS, Mortgagee has applied to the Commissioner for mortgage in-
 der Section 908, Title IX of the National Housing Act covering said

applicable provision. FHA Form 3378A must be submitted when there is an
 interest between mortgagor and general contractor.

mortgage loan and Commissioner has issued a commitment to insure said mortgage loan in an amount not to exceed \$-----, which amount, however, is subject to reduction under the circumstances and conditions outlined in this Agreement; and

WHEREAS, under the provisions of Section VIII of the Administrative Rules under said Section 908 of the National Housing Act, Mortgagor, Mortgagee and Commissioner shall, prior to initial endorsement of the mortgage for insurance enter into an agreement under which the Mortgagor shall agree to execute the Certificate required pursuant to Subsection 3 of said Section VIII of the Administrative Rules, comply with the obligation of the Mortgagor to reduce the amount of the mortgage loan as set forth in Subsection 2 of said Section VIII and disclose the relationship, if any, between Mortgagor, or any of its Officers, Directors or Stockholders, with the General Contractor selected to perform the construction, the Mortgagor further agreeing that the execution of the Certificate required pursuant to said Subsection 3 may be accepted by the Commissioner as evidence that no change in such disclosed relationship has occurred during construction and prior to the execution of such Certificate; and

NOW, THEREFORE, THIS AGREEMENT WITNESSETH:

(1) That in consideration of the agreement by the Mortgagee to make said mortgage loan and as an inducement to the Commissioner to insure said loan in favor of the Mortgagee and in further consideration of \$1.00 in hand paid, receipt whereof is hereby acknowledged, the Mortgagor agrees to submit to Commissioner prior to the receipt of the final advance under the mortgage and the final endorsement of the loan for insurance but in no event later than the date fixed in the building loan agreement for completion of the project or any extension thereof approved in writing by the Commissioner a Certificate accompanied by statements by Mortgagor and the General Contractor, in form prescribed by the Commissioner, itemizing all actual costs of labor and materials and necessary services in connection with the construction of the physical improvements on the mortgaged property or project (exclusive of off-site utilities and streets and of organization and legal expenses) including, but not limited to, utilities within the boundaries of the property or project; architect's fee actually paid, no part of which has or will accrue to the benefit of Mortgagor; taxes, interest and insurance during construction; and other miscellaneous charges incidental to construction and approved by the Commissioner but excluding all kickbacks, rebates and normal trade discounts received in connection with the construction of such physical improvements.

(2) Mortgagee and Mortgagor agree that the mortgage by its terms shall be a lien only to the extent of advances of mortgage proceeds actually made thereunder by the Mortgagee, together with accrued interest thereon. They further agree in the case of a mortgage on real estate held in fee simple that if the actual cost (or in the case of a mortgage on the interest of a lessee, 90 per centum of the actual cost), of the physical improvements on the mortgaged property or project (exclusive of off-site utilities and streets and of organization and legal expenses) shall exceed the total of all advances except the last advance, but shall be less than the face amount of the mortgage that the amount of the final advance shall only be to the extent of such excess, and that such advance, together with the sum of all prior advances, shall constitute the amount of the loan.

(3) Mortgagor agrees that if the actual cost of the physical improvements defined above, if the real estate is held in fee simple (or 90 per centum of such actual cost if the mortgage is on the interest of a lessee) shall be less than the total of all advances actually made by the Mortgagee prior to the date of such certification, to pay within sixty days after such certification, to the Mortgagee, for application to the reduction of the then outstanding balance of principal of the mortgage the amount by which such principal balance shall exceed the actual cost. The Mortgagee agrees that upon receipt by it of such amount that the contract of insurance will likewise be reduced by the amount the mortgage is so reduced. The Mortgagee and Mortgagor further agree to execute such instrument or instruments as may be required to legally accomplish such reduction of the mortgage.

(4) Mortgagor certifies that the relationship, if any, between the Mortgagor, or any of its Officers, Directors or Stockholders with the General Contractor selected to perform the construction is as follows: (see, so state.)

(5) The Mortgagor agrees to notify the Commissioner in writing, prior to the endorsement of the loan for insurance, of any disclosed relationship which has occurred since the execution of this agreement.

ts in an identity of interest between the Mortgagor and the General in which case the Mortgagor's Certification of Actual Cost will be d by the Contractor's statement of actual cost in form prescribed by sioner. It is agreed that in the absence of such notice the Mort- tification of Actual Cost may be accepted by the Commissioner as at no change, which has resulted in an identity of interest, has oc- ie relationship between the Mortgagor and the Contractor subsequent of this agreement.

gagor agrees to keep and maintain adequate records of all costs of and to make such records available for examination upon request missioner, it being understood, however, that where it is established fraction of the Commissioner that there is no identity of interest e Mortgagor and the General Contractor, as provided in paragraph the amount of the construction contract between the Mortgagor and Contractor will be accepted as the actual cost to the Mortgagor to be performed thereunder.

gagor agrees that, where paragraph (4) above reflects any identity between the Mortgagor and the General Contractor, Mortgagor will he contract for the performance of the construction of the project requiring the General Contractor, upon completion of the project, o the Mortgagor for delivery to the Federal Housing Commissioner of all actual costs of labor and materials and necessary services on with the construction of the physical improvements on the mort- erty or project, said statement to be in form prescribed by the er.

gagor agrees that if there is any identity of interest between the and the General Contractor the construction contract will be on a red fee basis with a maximum upset price, and for the purpose of the actual cost of the physical improvements on the mortgaged y fee in excess of \$----- will not be recognized by the Com- cost. Mortgagor further agrees that for the purpose of determining the Architect's fee shall not exceed \$-----.

gagor understands and agrees that the foregoing agreements and s made by it were made, presented and delivered for the purpose of an official action of the Federal Housing Administration and of the using Commissioner and may be relied upon by the Commissioner as ment of its agreements and certifications.

tgagee understands and agrees that the foregoing agreements made ade, presented and delivered for the purpose of influencing an official e Federal Housing Administration and of the Federal Housing Com- ad may be relied upon by the Commissioner as a true statement of its

LESS WHEREOF the parties hereto have duly executed this agree- y and year first above written.

(Mortgagor)

(Mortgagee)

FEDERAL HOUSING COMMISSIONER,

By -----
(Authorized agent)

o. 3377A

AGREEMENT AND CERTIFICATION

e in connection with insurance upon completion under section 908)

ement made this ----- day of -----, 19--,
een the -----, a -----

(hereinafter called Mortgagor), -----
----- corporation (hereinafter called Mortgagee),
eral Housing Commissioner (hereinafter called Commissioner);

AS, Mortgagor has applied to Mortgagee for a mortgage loan in the
t ----- for the purpose of erecting a housing project to
t ----- and identified as FHA
-----; and

WHEREAS, Mortgagee has applied to the Commissioner for mortgage insurance under Section 908, Title IX, of the National Housing Act, covering said mortgage loan and Commissioner has issued a commitment to insure said mortgage loan upon completion of the project in an amount not to exceed \$_____ which amount, however, is subject to reduction under the circumstances and conditions outlined in this Agreement; and,

WHEREAS, under the provisions of Section VIII of the Administrative Rules under said Section 908 of the National Housing Act, Mortgagor, Mortgagee and Commissioner shall, prior to endorsement of the mortgage for insurance enter into an agreement under which the Mortgagor shall agree to execute the Certificate required pursuant to Subsection 3 of said Section VIII of the Administrative Rules, comply with the obligation of the Mortgagor to reduce the amount of the mortgage loan as set forth in Subsection 2 of said Section VIII and disclose the relationship, if any, between Mortgagor, or any of its Officers, Directors, or Stockholders, with the General Contractor selected to perform the construction, the Mortgagor further agreeing that the execution of the Certificate required pursuant to said Subsection 3 may be accepted by the Commissioner as evidence that no change in such disclosed relationship has occurred during construction and prior to the execution of such Certificate; and,

NOW THEREFORE THIS AGREEMENT WITNESSETH:

(1) That in consideration of the agreement by the Mortgagee to make said mortgage loan and as an inducement to the Commissioner to insure said loan in favor of the Mortgagee and in further consideration of \$1.00 in hand paid, receipt whereof is hereby acknowledged, the Mortgagor agrees to submit to Commissioner prior to endorsement of the loan for insurance a Certificate accompanied by statements by Mortgagor and the General Contractor, in form prescribed by the Commissioner itemizing all actual costs of labor and materials and necessary services in connection with the construction of the physical improvements on the mortgaged property or project (exclusive of off-site utilities and streets and organization and legal expenses) including, but not limited to, utilities within the boundaries of the property or project; architect's fee actually paid, no part of which has or will accrue to the benefit of Mortgagor; taxes, interest, and insurance during construction; and other miscellaneous charges incidental to construction and approved by the Commissioner but excluding all kick-backs, rebates and normal trade discounts received in connection with the construction of said physical improvements.

(2) Mortgagee and Mortgagor agree that, prior to endorsement of the loan for insurance, (1) in the case of a mortgage on real estate held in fee simple, the mortgage loan and the commitment will be reduced by the amount, if any, by which the amount of the mortgage loan and the commitment exceeds the actual cost, as certified by the Mortgagor, of the physical improvements on the mortgaged property or project (exclusive of off-site utilities and streets and of organization and legal expenses), or (2) in the case of a mortgage on the interest of a lessee, the amount of said mortgage loan and the commitment will be reduced prior to endorsement of the loan for insurance by the amount, if any, by which the proceeds of the mortgage loan and the commitment exceed 90 per centum of the actual cost, as certified by the Mortgagor, of the physical improvements on the mortgaged property or project (exclusive of off-site utilities and streets and of organization and legal expenses).

(3) Mortgagor by its execution of this Agreement agrees to the acceptance of the mortgage loan reduced by the amount, if any, by which the amount of the commitment of \$_____ exceeds (1) the actual cost of the physical improvements as disclosed by the certification of the Mortgagor pursuant to the provisions hereof if the real estate is held in fee simple or (2) 90 per centum of the actual cost of the physical improvements as above defined if the mortgage is on the interest of a lessee and the Mortgagee agrees to execute such instrument or instruments as may be required to legally accomplish such reduction and Mortgagee agrees that the contract of insurance will likewise be reduced by the amount the mortgage and commitment is so reduced.

(4) Mortgagor certifies that the relationship, if any, between the Mortgagor or any of its Officers, Directors, or Stockholders with the General Contractor selected to perform the construction is as follows: (If none, so state.)

(5) The Mortgagor agrees to notify the Commissioner, in writing, prior to endorsement of the loan for insurance of any change in any disclosed relationship which has occurred subsequent to the execution of this agreement, which results in an identity of interest between the Mortgagor and the General Contractor, in which case the Mortgagor's Certification of Actual Cost will be accompanied by

Contractor's statement of actual cost in form prescribed by the Commissioner. It is agreed that in the absence of such notice the Mortgagor's Certification of Actual Cost may be accepted by the Commissioner as evidence that no change of interest has resulted in an identity of interest has occurred in the relationship between the Mortgagor and the Contractor subsequent to execution of this agreement.

(6) Mortgagor agrees to keep and maintain adequate records of all costs of construction and to make such records available for examination upon request by the Commissioner, it being understood, however, that where it is established to the satisfaction of the Commissioner that there is no identity of interest between the Mortgagor and the General Contractor, as provided in paragraph (4) hereof, the amount of the construction contract between the Mortgagor and the General Contractor will be accepted as the actual cost to the Mortgagor of the work to be performed thereunder.

(7) Mortgagor agrees that, where paragraph (4) above reflects any identity of interest between the Mortgagor and the General Contractor, Mortgagor will include in the contract for the performance of the construction of the project a provision requiring the General Contractor, upon completion of the project, to submit to the Mortgagor for delivery to the Federal Housing Commissioner a statement of all actual costs of labor and materials and necessary services in connection with the construction of the physical improvements on the mortgaged property or project, said statement to be in form prescribed by the Commissioner.

(8) Mortgagor agrees that if there is any identity of interest between the Mortgagor and the General Contractor the construction contract will be on a cost plus fixed fee basis with a maximum upset price, and for the purpose of determining the actual cost of the physical improvements on the mortgaged property, any fee in excess of \$----- will not be recognized by the Commissioner as actual cost. Mortgagor further agrees that for the purpose of determining actual cost, the Architect's fee shall not exceed \$-----.

(9) Mortgagor and Mortgagee understand and agree that the foregoing is true, valid, presented, and delivered for the purpose of influencing an official action of the Federal Housing Administration and of the Federal Housing Commissioner and may be relied upon by the Commissioner as a true statement of the Agreements and Certifications contained herein.

IN WITNESS WHEREOF the parties hereto have duly executed this agreement the day and year first above written.

ATTEST:

(Mortgagor)

(Mortgagee)

FEDERAL HOUSING COMMISSIONER,

By -----
(Authorized agent)

Senator DOUGLAS. Mr. Chairman?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. I would like to point out, if I may, that these precautionary measures were written into the Military Housing Act, and into the Defense Housing Act by the Senate, and not the FHA.

The CHAIRMAN. That is correct. I think the authors of the amendments were Senator Bennett and Senator Douglas.

Senator DOUGLAS. That is correct. And we received no support from FHA in this process.

I would like to ask the witness why, if he believes it desirable, doesn't the FHA support similar precautions in other sections of the Housing Act?

Mr. GREENE. Senator, I can only answer for myself on that. I don't believe I testified before your committee, in the first place, but if I had doubt if I would have done any differently from any of the rest of them. But at that time I had no conception that there were any such references occurring in section 608. Today, as I say, I can't reconstruct them.

Senator DOUGLAS. Here is the thing that puzzles me: Why should these facts be known to Senators, who have only an incidental connection with FHA, and who are busy on a multitude of other subjects? Why should these facts be known to us and yet not known to FHA, which has the conduct of the whole program? Your knowledge should be infinitely greater than ours.

Mr. GREENE. I do not know of any case, Senator, that was ever presented to us that showed any substantial difference between the estimated cost and the actual cost. I know of no such case.

The CHAIRMAN. Of course you never knew what the actual costs were. You didn't ask for them, or you didn't require them.

Mr. GREENE. That is right.

The CHAIRMAN. Except you had a right to do so under the charter.

Mr. GREENE. And, as I say, through these financial statements, if we had an opportunity of reviewing them.

The CHAIRMAN. As the holder of preferred stock in these corporations, you had the right to ask for them.

Mr. GREENE. Yes, sir.

The CHAIRMAN. We may, during this investigation, ask the FHA to get all that information. Of course, we can subpoena it likewise. We have the right to it.

Senator Douglas.

Senator DOUGLAS. One final point I would like to make. The qualifications on 90 percent of replacement cost, including these items, was not meant as an expansive factor, but a further limitation.

The CHAIRMAN. You see, the 90 percent of replacement cost was based upon costs as of 1947. The purpose of that was to keep them down, because prices were rising. We wanted to keep the costs down and keep the mortgage down. That had a tendency to keep the replacement cost based upon costs existing in 1947 because costs were rising all the time, you see. So that there was a tendency on the part of the Congress to keep the costs down.

You don't have any suggestions, then, in this proposed bill, to tighten it up and eliminate this sort of thing happening? You think we ought to write in the law when the project is finished that they must submit their costs?

Mr. GREENE. Yes, I do.

The CHAIRMAN. And then that the mortgage be subject to an adjustment if, in the opinion of the FHA, they want to do so. How are you going to handle this? Suppose it actually costs more than you estimate, would that allow them a larger mortgage?

Mr. GREENE. I don't believe you can do that, Senator. In the first place, the lending institution would have to agree to do that.

The CHAIRMAN. You don't think we should do that?

Mr. GREENE. No, sir.

The CHAIRMAN. If you don't do that, I suppose the tendency will be to make all estimates a little higher in order to take care of any miscalculations.

Senator Bush.

Senator BUSH. Inasmuch as we have to recess shortly, I suggest that the witness was going to make a couple of observations, which don't think he has gotten to yet. Could we have him make them?

The CHAIRMAN. Yes.

Mr. GREENE. I would like to make those for the purpose of the record.

Last week Mr. Kane, legislative attorney, Office of the Comptroller General, told about extensive operations in United States Government securities for income purposes. And he also spoke about our making a profit out of the sale of some tax-free Government bonds.

I want to explain for the record that the funds that are invested in FHA are not in essence FHA's funds, as they would be of a private corporation. They are funds that belong to the mutual mortgage insurance fund, and are their moneys. And the finance committee, of which I was chairman, I think was charged with the responsibility of investing that money as safely and as wisely as we could. We intended to do that.

Now, we did have a block of tax-free bonds, United States bonds, that were selling at a good premium, which naturally raised the question to the committee as to why we should hold these bonds when we could sell them at a premium. But before doing it, we took the matter up with the Secretary of the Treasury, and it was decided we would not sell them until we got his personal written concurrence, that it was not in conflict with the physical policy of the United States Government. I simply wanted to state we did take that precaution.

The other thing I wanted to mention, Mr. Kane made the statement in his testimony, and I am sure he was honest about it, but I am sure he was misinformed, with reference to section 608, that the Government could hold back for billions if another depression catastrophe hit us.

The **CHAIRMAN.** What is that?

Mr. GREENE. That the Government might hold back billions if another catastrophe depression hit us.

Senator BUSH. You mean on account of foreclosure?

Mr. GREENE. Yes.

Now, Mr. Chairman, I was chairman of the finance committee through its entirety. The others on that committee, and myself have worked very hard to build a firm, sound operation. It is a new one. We had no experience to go by. There is no other mortgage lending operation like this. We had to build out of reserves.

I am not in FHA any more, but I want to say this to this committee, that I hope that this investigation which is entirely necessary will not in the minds of the lending institutions change their mind about the fundamental soundness of FHA. To me it is a sound organization, and I hope it will stay that way, and I hope it will not be affected by these kinds of statements.

Now, we paid back to the United States Government every penny that they had advanced, together with interest, some \$70 million last year. We called in all our outstanding debentures, \$6 million or \$7 million worth of them. In addition to that, we have an earned service account of over \$350 million, most of which is represented in United States Government bonds. In addition to that, the administration has an annual income currently of \$100 million a year, after paying all of their operating expenses.

In addition to all of those things, Mr. Chairman, if the depression started tomorrow morning and we had to take back an unreasonable number of properties, the Federal Housing Administration would

not have to pay out a single dollar for 10 years, during which time we have premiums—

The CHAIRMAN. You mean because you would issue debentures instead? You would increase the national debt?

Mr. GREENE. That is right, sir. We would have premiums coming in for 10 years, even at a reduced rate, which would be a sizable amount, plus—and this is so often overlooked—that we have the security, the property itself, which comes back to us before a claim is ever paid, and we can hold that property until it can be placed on the market normally, and charge the obligation of the debentures.

Now, I will conclude, Mr. Chairman, and say that I do hope that the Federal Housing Administration will continue as a sound organization that it is. If there are things that have occurred here that need to be straightened out, I know your committee will do it. And you have my honest statement that I will be glad to help in any way that I possibly can.

The CHAIRMAN. We will be fair with every witness. We will be honest. We will try to get the facts. But we will make no effort whatsoever to whitewash anybody. If things have been done in the past that are wrong, we will certainly expose them, and if we find, as a result of our investigation, that there isn't anything to it, we will so state.

Mr. GREENE. Whitewashing will help nobody, sir.

The CHAIRMAN. Thank you.

(Mr. Greene's testimony before the House Independent Offices Appropriations Subcommittee follows:)

STATEMENT OF WALTER L. GREENE, COMMISSIONER

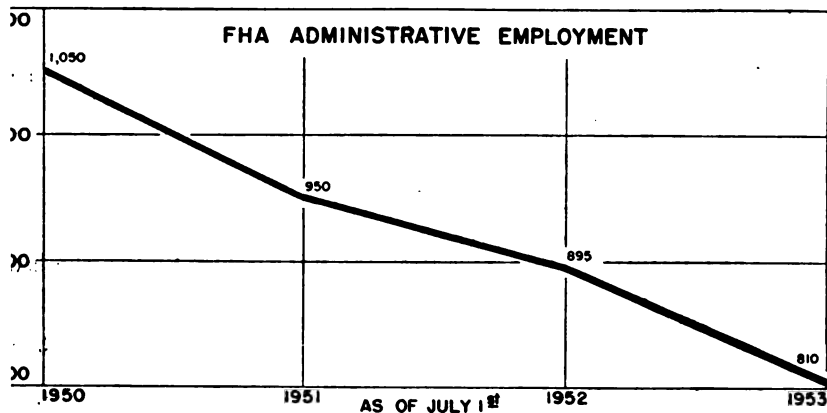
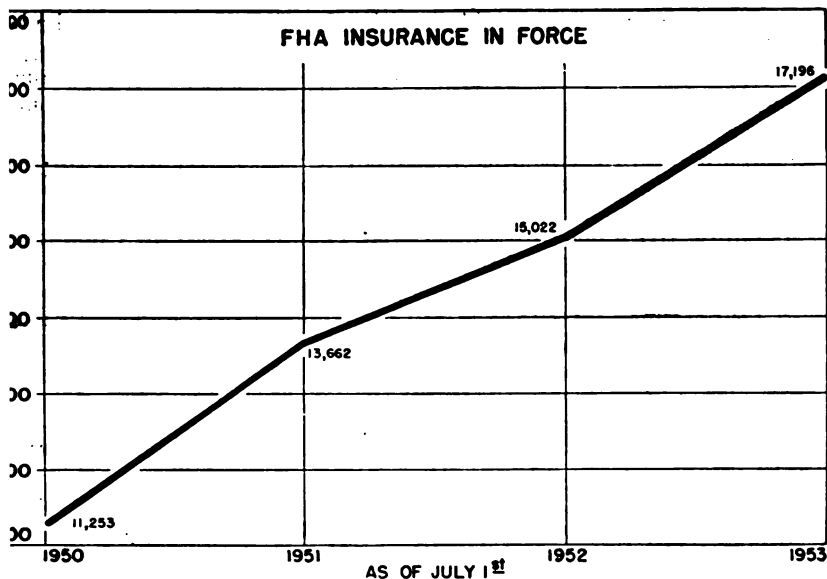
Mr. Chairman and members of the committee, I appreciate this opportunity to discuss our 1954 budget with you.

The FHA budget is a balanced budget.

Fee and premium income is estimated at more than \$137 million, expenses at a little less than \$34 million. This results in an expense-to-income ratio of 24.7 percent. If you will refer to exhibit A you will see how this compares with the experience of the 10 largest casualty stock insurance companies. The average ratio for these companies ranges from 37 to 39 percent in the postwar years. Individual companies range from a low of 34 percent to a high of 42 percent. The FHA ratio of 24.7 percent is unusually low.

Now if you will look at exhibit B it shows that the 1954 field budget is based upon a reduction in unit cost of processing from \$42.78 in 1952 to \$37.69. This represents a saving of more than \$3.4 million for the workload estimated in 1954.

The most serious problem which confronts us is the detrimental effect of the successive cuts in our administrative budget over the last 3 years. (Exhibit C will show you what has taken place.) Our insurance in force has been constantly increasing while our administrative staff has been repeatedly cut. Today the insurance outstanding amounts to about \$16 billion and our administrative force has been reduced to a little over 800 employees. This has resulted in piling up backlogs of day-to-day work to an almost unmanageable extent and, more important, it produces a gradual deterioration of essential internal controls. It has meant a serious curtailment in auditing functions and examinations of our field offices and of lending institutions. I earnestly appeal to you gentlemen to give this matter your special consideration.



am confident that Congress does not want the FHA to be limited to the extent that we are physically unable to exercise proper internal controls necessary for the protection of our insurance funds. We want to run a good administration that Congress can be proud of and I am sure that is what you gentlemen want too.

FHA budget, as submitted, is designed to produce more than \$100 million more over and above expenses.

Notwithstanding the fact that our estimates for the past 3 years have been conservative, we would, of course, expect your committee to make further cuts in any direction which in your informed judgment was not necessary to our effective operations. On the other hand, we are obliged to point out that any blanket reduction in the budget estimate of the FHA, solely to accord with your proposal to balance the Federal budget, will not accomplish the purpose intended. Any such cut will effectuate an amplified reduction in FHA's income which will result in exactly the opposite effect on the Federal budget which you gentlemen desire.

Thank you. I shall be happy to answer any questions which the committee may have.

The CHAIRMAN. I would like to make this statement for the benefit of the committee: I would like to have an executive meeting at 9 o'clock tomorrow morning, and then at 10:30 we will continue our open hearings, because I want to talk to the committee about its procedures.

We will now recess until 2 o'clock, at which time our witnesses will be Mr. Bovard, the former General Counsel of the Federal Housing Administration, Mr. Murphy, former Associate General Counsel, possibly, if we get to it, Mr. Perce, Deputy Assistant Commissioner of the Federal Housing Administration.

We will now recess until 2 o'clock.

(Whereupon, at 12:15 p. m., the committee recessed, to reconvene at 2 p. m., the same day.)

AFTERNOON SESSION

(The committee reconvened at 2 p. m., Senator Homer E. Capel chairman, presiding.)

The CHAIRMAN. The committee will please come to order. The first witness will be Mr. Burton C. Bovard, General Counsel of the Federal Housing Administration. Mr. Bovard, will you be sworn, please?

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF BURTON C. BOVARD, GENERAL COUNSEL, FEDERAL HOUSING ADMINISTRATION

Mr. BOVARD. I do.

The CHAIRMAN. Thank you.

Mr. Bovard, how long were you with the FHA?

Mr. BOVARD. About 19 years.

The CHAIRMAN. You were with the FHA in 1934 when the law was first passed?

Mr. BOVARD. No; 1935.

The CHAIRMAN. Were you General Counsel during that entire period?

Mr. BOVARD. No; I was appointed General Counsel in 1940.

The CHAIRMAN. What were your duties prior to that time?

Mr. BOVARD. I was Assistant General Counsel for a certain period of time. I have forgotten exactly how long. Prior to that I was an attorney in the Legal Division there.

The CHAIRMAN. Say that again, will you please?

Mr. BOVARD. I was Assistant General Counsel immediately prior to becoming General Counsel.

The CHAIRMAN. You were Assistant General Counsel from 1935 to 1940?

Mr. BOVARD. No; I came in in the summer of 1935 as administrative assistant. For a few months I was not in the Legal Division. Then I was transferred to the Legal Division as an attorney and then became Assistant General Counsel sometime prior to 1940. I have forgotten when.

The CHAIRMAN. Since 1940 you have been the General Counsel until when?

Mr. BOVARD. I am still General Counsel.

The CHAIRMAN. That's right, you are still General Counsel. Just tell us briefly what your duties are as General Counsel.

Mr. BOVARD. I am responsible for the Legal Division and advise the Commissioner and the other administrative officers with respect to interpretations of law, the legal effect of proposed action, and assist, of course, in drafting legislation and amending rules and regulations, and so forth.

The CHAIRMAN. Did you give them a verbal or a written opinion at all of the items under title I came within the scope of the law?

Mr. BOVARD. I don't know as to all the items. We do have to make determinations with respect to the eligibility of certain items.

The CHAIRMAN. Did they ask your opinion on each and every one?

Mr. BOVARD. No, not personally. Of course, we do not have occasion to make that determination except upon the payment of the claim, or we may have an inquiry from a lender or from a manufacturer.

The CHAIRMAN. Now, wait a minute. You say you have no opportunity to make that determination except when a claim is made?

Mr. BOVARD. We have no obligation to make that determination.

The CHAIRMAN. Until a claim is made?

Mr. BOVARD. Until a claim is made.

The CHAIRMAN. Are you saying that you do permit and did permit authorized bankers to insure anything they wanted to?

Mr. BOVARD. Under title I, we don't examine or approve the individual loans. The loans are reported to us for insurance.

The CHAIRMAN. Then let's start all over again. How does the banker know what items he can and what items he cannot insure, what items are, or are not, insured under your insurance?

Mr. BOVARD. Of course, the language of the act and the regulations—

The CHAIRMAN. In other words, FHA sends the banker the law and the regulations, and then he figures it out from those?

Mr. BOVARD. That's right.

The CHAIRMAN. That big list of five or six hundred names. The FHA furnished us with some X number of items on which under title I they have been guaranteeing the credit. Here are a number that I will not read. You know what they are. Explain to me just how they get into the system.

Mr. BOVARD. I don't know.

The CHAIRMAN. For example, take heaters. Who said that the government would guarantee the loans that the banks made on heaters? Who originally said it?

Mr. BOVARD. It is possible that a manufacturer of heaters could have inquired of FHA as to whether a heater was or was not eligible under title I.

The CHAIRMAN. He made inquiry from FHA here in Washington?

Mr. BOVARD. He might very well have.

The CHAIRMAN. If he did make inquiry in Washington, who in Washington said "Yes" or "No"?

Mr. BOVARD. Well, it would first come to the Administrative Section. They would presumably refer it to the Legal Division to see whether or not it came within the—

The CHAIRMAN. Within the law?

Mr. BOVARD. The provisions of the act, yes. We might make conditions. We might say, yes, if properly and permanently installed.

The CHAIRMAN. As the General Counsel for FHA, are you familiar with this list? I am holding it up here.

Mr. BOVARD. No, I am not. I have never seen it, sir.

The CHAIRMAN. You never saw it?

Mr. BOVARD. No.

The CHAIRMAN. You never once gave them an opinion that a kennel or a television aerial was a permissible insurance item?

Mr. BOVARD. It may be. I am confident nothing with respect to a kennel. I had never had any inquiries with respect to a dog, kennel or something of that sort.

The CHAIRMAN. Here is a whole list. Masonry; moisture vents; nooks, breakfast; outlets, electric; painting, pantry; partitions; penthouses; piers; pails; pillars; piping; plastering; porches; pump water; paneling; papering; plumbing fixtures; photo murals; poultry houses. That is all on one page. What we are trying to find out is, who approved those things to be financed by FHA?

Mr. BOVARD. I don't know, sir. I have never seen or heard of the list.

The CHAIRMAN. You never have, and you are the General Counsel?

Mr. BOVARD. I am, but I have never heard of that.

The CHAIRMAN. I believe we have had testimony here before—I forget who it was from and will the staff dig it out—from a reliable witness in our hearings heretofore that you, the General Counsel, were responsible and that you approved and gave them an opinion as to whether these things were or were not permissible.

Mr. BOVARD. It is, of course, possible that the administrative section under title I had a list presented to them or drew a list, although I doubt if they did, and had it approved by the legal division.

Senator BENNETT. Will the chairman yield?

The CHAIRMAN. Yes.

Senator BENNETT. I wonder if we are not confused over the word list. I can understand that the General Counsel's office probably never was presented with a list and asked, "Would you approve everything on the list?" But, they were probably presented with each item separately as it came up and before the item got on the list.

The CHAIRMAN. Is that the case?

Mr. BOVARD. That is quite possible.

The CHAIRMAN. Do you ever remember as the General Counsel telling them either verbally or in writing that penthouses or piers or photo murals or poultry houses or paving or paneling or porches were permissible items?

Mr. BOVARD. I don't recall any specific mention of those particular items, but I am confident that if they had been presented to me, I would have said, "Yes, they are eligible."

The CHAIRMAN. Under the law?

Mr. BOVARD. Under the law.

The CHAIRMAN. Why do you so interpret it? Do you consider all of those things home improvements?

Mr. BOVARD. The law doesn't require for eligibility under title I that it be a home improvement. It could be an improvement to a structure. As I recall, it requires that it must be an alteration or an improvement upon or in connection with an existing structure.

The CHAIRMAN. That phase of it only applies to requirements, but the original law, of course, talked about repairs and home improvements. While you don't remember of approving any of these things, had it been called to your attention, your opinion is that you would have approved them?

Mr. BOVARD. I certainly would have.

The CHAIRMAN. And, you think all of these items, then, are—

Mr. BOVARD. The ones that you have mentioned seem to me to be—

The CHAIRMAN. Would you have approved of a television aerial?

Mr. BOVARD. It could very well be. I don't know as to that. The question would be whether or not it is an improvement upon, or in connection with, an existing structure. That would be the criteria that we would establish.

The CHAIRMAN. Here on April 19, 1954, I will read the testimony:

The CHAIRMAN. Do you insure burglar alarms?

Mr. FRENTZ. Yes.

Senator MAYBANK. In houses?

Mr. FRENTZ. Yes.

The CHAIRMAN. Who passes upon the categories of items or the items that come under this?

Meaning, of course, this list. Mr. Frentz answered. Do you know him?

Mr. BOVARD. Yes, indeed.

The CHAIRMAN. Wasn't he in charge of title I?

Mr. BOVARD. Yes.

The CHAIRMAN. He says, "Our General Counsel."

The CHAIRMAN. Your General Counsel?

Mr. FRENTZ. That's right.

The CHAIRMAN. Does it work like this, a manufacturer will come in and say, "I want you to make this product eligible for"—

Mr. FRENTZ. That is right, yes, sir.

The CHAIRMAN. Oh, that is the way it works?

Mr. FRENTZ. That is right. I would like to make this comment, that since last year we have had innumerable products submitted to us. America is on the move. All the new products that are being—

The CHAIRMAN. And you have been passing upon these yourself?

Mr. FRENTZ. The FHA.

The CHAIRMAN. And you are going to give us a list of all the approved items?

Mr. FRENTZ. It would be a tremendous list, Senator.

Senator MAYBANK. There is no doubt about that.

The CHAIRMAN. Why would it be tremendous? You passed upon all of them?

Mr. FRENTZ. We will endeavor to do our best to get them all, if we can.

The CHAIRMAN. You say it would be a tremendous list. Do you mean a hundred items, maybe?

Mr. FRENTZ. Oh, it would be my rough guess there may be 500 or 600 or more.

He presented that list to us. That is the list I have before me. He says there are five or six hundred. I haven't counted them. He says you passed upon each and every one of them.

Mr. BOVARD. Our legal division undoubtedly did pass upon those items, the question being, is it, or is it not, an improvement upon, or in connection with, an existing structure.

The CHAIRMAN. And, your opinion is that each and every one of these items—I haven't seen it, of course.

Mr. BOVARD. I haven't seen this list. The ones that you have mentioned to me—except the dog kennel. I can't imagine that as being an improvement upon or in connection with existing structures.

The CHAIRMAN. Would you say a television aerial was one? Did you approve that?

Mr. BOVARD. I don't recall it.

The CHAIRMAN. Would you approve it?

Mr. BOVARD. It is quite possible, but I doubt if we would approve a television set, for instance.

The CHAIRMAN. No; but you approved the aerial?

Mr. BOVARD. It might very well be.

The CHAIRMAN. You did approve it, because they have been financing it, so evidently you or your assistants approved it.

Mr. BOVARD. It would seem to be a permanent improvement to the existing structure.

The CHAIRMAN. As General Counsel, during the life of this title I, what did you do when all these complaints were brought to your attention? Didn't you ever become alarmed about them?

Mr. BOVARD. Yes; and we sent out our investigators to the extent that we could, and investigated the facts to see whether or not we could recommend prosecution of the person perpetrating the fraud upon the lender, or the borrower.

The CHAIRMAN. What is your suggestion that we do with this pending legislation before us? Have you any thoughts on how we could eliminate these alleged irregularities that we have been reading about that have been occurring?

Mr. BOVARD. Well, of course, the irregularities that I assume you are referring to are these high-pressure salesmen, particularly, that induce borrowers to buy things that they don't need and don't really want, or in some instances defraud them absolutely.

The CHAIRMAN. It is all the alleged irregularities that Mr. Olney was telling us about and that we have been reading about in the paper. You ought to know as well, or better than any of us, as the General Counsel for FHA.

Mr. BOVARD. I don't know exactly what could be done legislative-wise to protect the borrower against unscrupulous salesmen, because, of course, we have no contact with them. It may be that if the responsibility is put on the lender to inquire into the relations between the salesman and the borrower something might be done along that line, but with respect to the eligible items to which you have referred, it would be a great help if legislation could be enacted which would definitely define what would be eligible.

The CHAIRMAN. You think the law ought to specifically name the items, or in categories so simple that no one could misunderstand them?

Mr. BOVARD. Yes; because, of course, there is nothing in the act that indicates—nor would I recommend that the FHA impose its judgment—as to whether the improvement was necessary or created additional value.

The CHAIRMAN. Why, if you were so conscious of the looseness of this act, haven't you over the past 14, or 15, or 16 years asked Congress to tighten it up yourself? Your records would show just the opposite, that you gentlemen came here each year with great praise for title I and asked that it be renewed and even at the moment you have asked that we increase the amount and lengthen the terms. What was there about this title I that made everybody over at FHA so proud of it

that they wanted to keep its good or bad features under a barrel or under a bushel basket?

Mr. BOVARD. That feeling of recommendation for title I was not particularly shared by the Legal Division. As a matter of fact, the Commissioner at one time, when Stewart McDonald was Commissioner—you may recall that he recommended that title I be repealed.

Senator MAYBANK. Whom did he recommend that to?

Mr. BOVARD. The congressional committee.

Senator MAYBANK. What congressional committee?

Mr. BOVARD. Whether it was the Senate committee or the House committee, I am not particularly sure.

Senator MAYBANK. McDonald recommended title I be repealed?

Mr. BOVARD. Yes, sir, at one time.

The CHAIRMAN. Who is McDonald?

Mr. BOVARD. He was Acting Commissioner when he came in.

The CHAIRMAN. In what year did he recommend that?

Senator MAYBANK. I can tell you about when he did, because Stewart McDonald left before I came. I came in 1941, so it was sometime in the thirties. I talked to him once or twice after I came here. I would like to know for my own information when that was. He was Commissioner, as I recall in the early thirties. He left there when I was Governor of South Carolina.

Mr. BOVARD. Ferguson came in.

Senator MAYBANK. That's right, Ferguson came in when I was Governor.

Mr. BOVARD. He came in as Commissioner later.

Senator MAYBANK. He had left before I came here, but I would like, out of curiosity, to know when he recommended that and to what committee.

The CHAIRMAN. We'll see if the staff can find out. What are you going to recommend that we do to prevent this sort of thing ever happening again?

Mr. BOVARD. As I suggested, some kind of tightening up or definition of the items that would be eligible.

The CHAIRMAN. In other words, you recommend that we spell out in the law the items that will be covered? What else would you recommend?

Mr. BOVARD. That is about the only thing that I can think of at the moment.

The CHAIRMAN. Don't you think we ought to recommend making the banks accept more responsibility?

Mr. BOVARD. Yes. Of course, as to whether the banks will accept much more responsibility and how that might affect the program, are matters that I know nothing about.

The CHAIRMAN. I don't think we care much because if we have to have dishonesty and cheating on the part of the American people in order to get some business done and some repairs done to homes, I think we would be better off without them, don't you?

Senator MAYBANK. Without any program at all.

The CHAIRMAN. I think we would be better off without them.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. During the years that you have been General Counsel, have you been aware during most of these years that this opportunity for swindling existed and that it, in fact, did go on?

Mr. BOVARD. Oh, yes; we knew that it did go on to some extent, because we had complaints and we had investigations and several instances were prosecuted.

Senator BENNETT. To your knowledge, did FHA ever consider a general public information program which would alert the ordinary person who might be the victim of this kind of an enterprise to the fact that these swindlers were possible or might be suspected?

Mr. BOVARD. I know that numerous administrative letters were sent out.

Senator BENNETT. Those were letters within the organization?

Mr. BOVARD. No; to the qualified lenders.

Senator BENNETT. I am thinking in terms of the kind of a program which would alert the individual long before he met the qualified lender to be on the lookout for this kind of a swindle. I put in the record this morning a letter from a homeowner in a little town in Utah who would have no occasion to know that the swindle existed and who was persuaded to buy a fire alarm system by being told that FHA required it and that if he didn't get it by January 1, 1954, he would be in trouble. The police department and the fire department of that community, when those things happened, released information to the press but I notice FHA's name is not contained in that warning. There is no indication that FHA was concerned with the protection of that individual. Yet, if it hadn't been for FHA's guaranty provision, these fellows never would have been able to operate. So, I am asking again, do you know of any program that FHA had to alert the ordinary public to the possibility that they might be subjected to that kind of a swindle?

Mr. BOVARD. I don't know of any, Senator.

Senator BENNETT. Don't you think the problem was sufficiently serious? I am interested because when it came to building section 608's, FHA spent a lot of time and money and held 600 meetings around the United States in order to encourage this program. But, when it comes to protecting the ordinary fellow from swindles that go on under the name of FHA, apparently there is neither time nor money or thought for that kind of a public-relations program. I wonder if one of the reasons that kind of program wasn't developed was that you didn't want to suggest that there could be anything wrong in FHA. It has been interesting to me since these hearings started that some witnesses have come before us and said, "Oh, you mustn't injure the good name of the FHA. The committee must make official pronouncements that everything is all right, that this thing doesn't really mean anything. We have got to preserve the public faith in FHA."

It seems to me that one of the ways to preserve faith is to step out boldly in the face of knowledge that you have and alert people that the name of FHA might be used as a basis for the kind of thing that happened. That is an affirmative action to defend the good name, rather than the kind of negative action which would indicate that you got through with the few complaints that came to you and covered them up and tried to get by with the least criticism. You know of no such affirmative action?

Mr. BOVARD. I do not; but there may very well have been such irrelative action, without my knowing it.

Senator BENNETT. I would think as the General Counsel the ministration would have consulted you, because your department ould have had the responsibility for the prosecution. Of course,

I understand it FHA can't prosecute these particular swindlers. ey are disobeying State laws, not Federal laws, and your only portunity is to take action against the lending institutions.

Mr. BOVARD. No, that is not entirely correct, Senator. If they ke fraudulent statements to the FHA through the means of these rms that we had, certificates that we require from them, that would a violation of Federal law. While we don't prosecute ourselves, ; investigate the facts and report them—give the report to the epartment of Justice.

Senator BENNETT. Mr. Chairman, I would like to suggest before get through that we ask FHA to give us a list of the actual prose- tions on complaints on title I.

The CHAIRMAN. We will do it right now. We won't wait. We ll ask the clerk of the committee to secure from the FHA a list of e actual prosecutions under title I.

(The information referred to follows:)

Eighty-one title I cases referred by FHA to Department of Justice for action between January 1, 1951, and May 7, 1954.

Mr. Bovard, you are familiar with the fact that every so often FHA ued what has been referred to here in this committee as a blacklist of alers, meaning dealers that had violated the rules and regulations, d this list was published by FHA and sent out to all the lending encies, some 8,000, I believe. In each instance, did they get your proval as the General Counsel before they blacklisted the dealer?

Mr. BOVARD. No.

The CHAIRMAN. They just did it themselves?

Mr. BOVARD. That is, the administrative section did it.

The CHAIRMAN. On whose complaint did he do it?

Mr. BOVARD. I don't know the exact procedure for putting these alers on this precautionary list. You understand we don't take y action against the man on that precautionary list. However, we l lenders if they deal with that man they must get this, that, and e other additional information.

The CHAIRMAN. You publish it and send it out to 8,000 lending titutions, which makes it public property subject to being printed the newspapers. My point is, wasn't any care given to make cer- in that the man should have been taken off the list?

Mr. BOVARD. Oh, yes, I think so.

The CHAIRMAN. You are the General Counsel. Tell us exactly at precautions were taken.

Mr. BOVARD. I can't tell you the exact procedure. Undoubtedly mbers of my staff who are more familiar with the details—

The CHAIRMAN. Mr. Murphy is our next witness. How long was with you?

Mr. BOVARD. For a number of years.

The CHAIRMAN. Many years?

Mr. BOVARD. Yes.

The CHAIRMAN. Do you think he would have the answer to this estion?

Mr. BOVARD. Yes, no question about it.

The CHAIRMAN. How many lawyers did you have working under you as General Counsel?

Mr. BOVARD. Well, I don't recall.

The CHAIRMAN. Well, about how many? Would you say 2 or 10?

Mr. BOVARD. Oh, no, more than that. Maybe as many as 15 attorneys, possibly 20. You see, I haven't been back to the office for some 2 weeks.

The CHAIRMAN. I mean when you were there how many did you have?

Mr. BOVARD. About that many. I think we had 42 or 50 in the Division, 42 or 50 people in the Division which would include secretaries.

The CHAIRMAN. How many would you have in the Washington office?

Mr. BOVARD. They would all be in the Washington office.

The CHAIRMAN. Then you have these regional offices or State offices. You had some attorneys there, didn't you?

Mr. BOVARD. Yes, but they were not on the staff of the Legal Division. They were on the payroll of the individual regions and zones while they were under our technical supervision in the Legal Division. We had maybe 10 field attorneys in addition.

The CHAIRMAN. You say "maybe." You were the General Counsel.

Mr. BOVARD. Yes, but I don't remember those figures.

The CHAIRMAN. Wouldn't you remember a simple thing like that, as to how many attorneys you had working for you? Do they come and go?

Mr. BOVARD. Unfortunately, they do come and go. We have had a number of cases recently, within the last 2 or 3 years.

The CHAIRMAN. What other duties did you have?

Are there any duties over there that you had where you're positive as to what did go on? I am serious about it. It is kind of funny. I don't want to get too critical about this.

Here you are the General Counsel. You have been there since 1934, and you can't even answer simple questions. I know you're not avoiding them.

Mr. BOVARD. You mean as to the number of attorneys?

The CHAIRMAN. Yes, and as to whether you handled these lists or not.

Mr. BOVARD. I have never seen the lists. I can give you a positive answer to that.

The CHAIRMAN. You, as General Counsel, didn't have a system where certain legal matters had to be cleared by you before they could act?

You know, I am beginning to realize why this FHA agency is in the trouble it is in. It looks to me like it was a loosely operated and administered organization.

I want to get into these section 608's in a minute, when we get off title I. For example, it seems to me that it is quite a serious thing to put a dealer on the blacklist.

No doubt they belonged on, but it is a pretty serious thing to put a dealer on the blacklist. I say you had no method of proving the charge or proving that he should go on or should not, as far as you know.

MR. BOVARD. Mr. Murphy can give you a much better answer than I can on that.

The CHAIRMAN. Let's get into section 608, unless you gentlemen have some further questions on title I.

You have heard the irregularities, the alleged irregularities. You have been reading about them now for 3 weeks in the newspapers and I think you possibly have attended some of these meetings.

What do you think we can do in this law that is before us at the moment to prevent that sort of thing happening again, or should it be prevented?

MR. BOVARD. You are referring, I assume, to the difference between the estimated cost and the actual cost.

The CHAIRMAN. What I am referring to is that I think it was the intent of Congress that they were to get 90 percent of the cost and then they gave you, the FHA, the right to estimate the cost so that they could make the commitments in advance and so forth.

It was the intention that they were to get 90 percent of the cost. At least, that is what we wanted to give to them. Now, it seems as though in many instances they received much more and made a profit on it.

How can we eliminate that sort of thing happening in the future?

MR. BOVARD. The only suggestion that I can think of at the moment would possibly be cost certification, similar to that included in section 980.

Senator MAYBANK. Will the Senator yield?

The CHAIRMAN. Senator Maybank.

Senator MAYBANK. Hasn't there been some trouble in the so-called military housing on cost certification, or have you not heard of that?

MR. BOVARD. I haven't heard of it.

Senator MAYBANK. You have never heard any complaints about military housing?

MR. BOVARD. Of what nature, Senator?

Senator MAYBANK. That it costs more than it was supposed to cost, even though they were certified?

MR. BOVARD. I haven't; no.

The CHAIRMAN. I hold in my hand some testimony you gave on July 29, 1949, on this subject. It is not necessary to go into it; it was put in the record. (See p. 1503.)

In that you say that it just couldn't run over a hundred percent. Yet according to the Internal Revenue Service, it has gone over in several hundred cases.

MR. BOVARD. Well now, of course, the determination of costs is entirely outside our division, the Legal Division. It is a matter of underwriting and administrative determination.

I was listening to the testimony this morning of Mr. Greene, and there seemed to be some confusion as to what difference really was.

It just occurred to me, do we mean the cost to the mortgagor corporation, or do we mean the cost of the project to the mortgagor corporation and the builder?

The CHAIRMAN. I think what we mean is the cost to the corporation, that when it was all finished, owned, the building, or the cost to the fellow who got the commitment to insure his mortgage.

MR. BOVARD. The cost to the borrower corporation?

The CHAIRMAN. The man who got the commitment to borrow the money.

Mr. BOVARD. It was a corporation, you will recall, in all these section 608 cases. The mortgagor corporation is a corporation there.

The CHAIRMAN. Wait a minute. FHA required that they organize a separate corporation, is that right?

Mr. BOVARD. Yes; a separate mortgagor corporation, to own and operate this project.

The CHAIRMAN. And they took \$100 worth of preferred stock in each, is that correct?

Mr. BOVARD. That is right. Of course, there were some exceptions in the under \$200,000 cases for a certain short period of time.

The CHAIRMAN. Why did you require that they organize a separate corporation in each instance?

Mr. BOVARD. Because we felt that this corporation should own their individual project and should not be engaged in other businesses.

The CHAIRMAN. Why? Why wouldn't it have been better for them to have been engaged in a \$10 million business and put the assets of the other \$10 million up against this particular mortgage?

Why did you want them to be separate corporations and permit them to do it with \$1,000 or \$2,500 or \$7,500?

Mr. BOVARD. I can't answer the reasons for that. I don't know. I am convinced that—

The CHAIRMAN. Let me ask you another question. Why, when a corporation was organized, let us say, by 3 people, and they put in \$2,500 each, and then they got a commitment to build a building and the FHA would insure their mortgage for, well say, \$4 million, why didn't you require that those 3 individuals endorse the mortgage?

Why did you let them off with just a little \$7,500 corporation on a \$1 million project? There were a lot of them like that.

Mr. BOVARD. That would be a matter entirely outside the scope of the authority of the Legal Division.

The CHAIRMAN. Did they ever ask your opinion as to whether or not it was good business to permit a man with \$2,500 to organize a corporation and that would be all the assets the corporation had and then build \$2 million project and the Government would guarantee the mortgage up to \$2 million?

Mr. BOVARD. No, sir.

The CHAIRMAN. They never asked your opinion about it?

Mr. BOVARD. They did not.

The CHAIRMAN. Had they asked your opinion, you would have advised them what?

Mr. BOVARD. I don't know, sir. I would like to pursue that question on cost.

The CHAIRMAN. You go ahead.

Mr. BOVARD. Where one individual, the same interest, owned both the mortgagor corporation and the building corporation, the contract price between the two corporations would not be significant as to the actual costs of the project.

It is similar to a man making a contract with himself to build a building. He can fix that contract price at any figure which may seem advantageous to him or for any reason.

So consequently, it occurs to me that this wide difference, which seems almost unbelievable in the estimated cost of the project

and the actual cost to the mortgagor corporation may be offset by a corresponding loss to the contracting corporation.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. If that were so, why should the mortgagor corporation involve itself in the payment of income taxes on the profit, if the profit were offset by a loss on the other side?

It's obvious to me that there was no offsetting loss.

Mr. BOVARD. Maybe so. I don't know anything about those facts.

Senator BENNETT. The income tax returns, as I remember, reveal that.

Mr. BOVARD. There are, of course, two separate corporations.

The CHAIRMAN. Mr. Bovard, you were the general counsel at the time this law was passed, were you not? And as general counsel one of your duties was to write up all the rules and regulations and interpret the law, is that correct?

Mr. BOVARD. We interpreted the law and we assisted in—

The CHAIRMAN. You approved the legal aspects of the rules and regulations?

Mr. BOVARD. That is right.

The CHAIRMAN. Tell us why you insisted, if you did, or if you didn't, who did—I'm going to say this because I think it is true—if it is proven later that it is untrue, we will be able to tell as we get into these things—that separate corporations be organized with practically no money or no assets, rather than permitting three individuals as a partnership to do it, with all the other assets that they might own behind this mortgage. Why did you insist on separate corporations with no money, or practically no money?

Mr. BOVARD. I didn't insist.

The CHAIRMAN. Then who did? Who adopted that policy?

Mr. BOVARD. I imagine it was an administrative determination. It would normally be an administrative determination.

The CHAIRMAN. Let me ask you this: I can see where you might have permitted Senator Bennett and me, and Senator Maybank to have organized a corporation and put \$7,500 in it and financed our mortgage for two or three million dollars, because all 3 of us happen to have considerable wealth outside this \$7,500 that we put in the corporation.

Why didn't you require that the three of us endorse the mortgage?

Mr. BOVARD. You probably wouldn't have been willing to do so.

The CHAIRMAN. How do you know? My point is: I'm trying to find out why you people in the FHA insisted that they be corporations with very little, if any, money in them, and then didn't require that the stockholders endorse the mortgage until it was paid off.

Why did you let them off the hook? We will find out before we get through, you can rest assured of that, if it takes a year, but I thought maybe you could help us.

Why did you do that?

Mr. BOVARD. I don't know. It would have been an administrative decision and not a legal decision.

The CHAIRMAN. We were hopeful we would get that from Mr. Powell, but he doesn't want to testify. You know Mr. Powell, don't you?

Mr. BOVARD. Yes.

The CHAIRMAN. He was there all during the time you were there.

Mr. BOVARD. It may be that Mr. Perce will be able to give you that.

The CHAIRMAN. Did Mr. Powell have complete charge of section 608?

Mr. BOVARD. He was the administrative head of the Rental Housing Section.

The CHAIRMAN. Do you know who made the decision that they must be separate corporations in every instance?

Mr. BOVARD. No; I do not.

The CHAIRMAN. Do you know why they made that decision?

Mr. BOVARD. One of the reasons they wanted it to be a corporation was to facilitate the FHA control over rents and so forth.

The CHAIRMAN. They could have done that just as well without a corporation.

Mr. BOVARD. You mean if it were an individual?

The CHAIRMAN. Certainly.

Mr. BOVARD. It is a little more difficult. It has to be by regulatory contract. Of course, we did make a few section 608's under 200,000 where the mortgagors were individuals. They were uncontrolled as to rents and charges.

The CHAIRMAN. You can control an individual as well as you can control a corporation, can't you, under the law?

Mr. BOVARD. It is much more difficult because, of course, our authority after the mortgage is insured depends entirely on contract obligations.

The CHAIRMAN. You see what has happened in these instances. You see, here would be a man worth maybe \$1 million or \$2 million. He would put up \$2,500 or \$5,000 in a corporation.

Well, the corporation is only liable for \$5,000, and you gentlemen just let him off completely with all the rest of his assets. I am trying to find out why you didn't have him endorse the mortgage.

Mr. BOVARD. I am convinced that is because he would not have endorsed it.

The CHAIRMAN. Then let him go; they wouldn't put up a building. That is just my point. As I said this morning, you gentlemen are afraid you are going to offend somebody.

You just said you were afraid you were going to offend somebody because you were afraid he wouldn't endorse it.

Mr. BOVARD. We wanted to put across the program that the Congress wanted us to put across.

The CHAIRMAN. What program did the Congress want you to put across?

Mr. BOVARD. The section 608 housing program, to get builders to build.

The CHAIRMAN. Yes, the Congress passed the law, but we didn't know you were going to administer it as you did.

I was not here when it was passed, but I am certain they didn't expect you to administer it as you did, permitting these gentlemen to get completely off the hook. That is what you did.

We are just trying to find out why that policy was adopted. Maybe there is some good reason. I can't see it, but maybe there is some good reason for it.

There was nothing in the law that required you to do it. The law did require you to set the rents. The law required you to get certain

reports from the owners. The law required you to do certain things, but the law didn't require you to do a single thing that you could not have done with an individual as well as with a corporation.

You will find the pattern all through here is that 3 people or 5 people organized the corporation and put in a very small amount of money. But even if you wanted a corporation, why didn't you require that the owners or stockholders, 3 of them or 5 of them, in most instances, endorse the mortgage?

Mr. BOVARD. It is the same answer. I don't believe that they would have been willing to do so or that they would have been willing to build the buildings.

The CHAIRMAN. Why wouldn't they be willing to do it? If they were honest and intended to pay the money and thought it was a good project, they would have done it.

Mr. BOVARD. They didn't want to put their own personal capital at risk.

The CHAIRMAN. I think you are going to find two classes of people went into these. One was people who had absolutely no money and got in on a shoestring, and the other is people with a lot of money that organized these little corporations to protect themselves against the balance of their wealth and went in in a big way. We will get all of that later as we get into this business and get our C. P. A.'s to analyze the whole business. Senator Bennett?

Senator BENNETT. I had a couple of questions. Could the reason that you required an incorporation be that you wanted a situation under which FHA could take preferred stock? Didn't FHA take preferred stock in every one of these corporations?

Mr. BOVARD. That is right.

Senator BENNETT. What was the reason for requiring these corporations to provide FHA with preferred stock?

Mr. BOVARD. So that we would have control in the event of a default in the mortgage or a default under the charter provisions. We could step in and oust the existing directors, take over effective control of the corporation.

Senator BENNETT. As I remember it, the evidence has been that the amount of preferred stock in most cases was \$100.

Mr. BOVARD. That is all.

Senator BENNETT. Do you think that is enough to give you control?

Mr. BOVARD. It was a special type of preferred stock which was wholly owned by the Commissioner and was issued for that express purpose, and the charter provisions provided that in the event of a default the preferred stockholders could, upon call of a meeting, elect their own directors, ousting the others.

Senator BENNETT. And the FHA had then two strings to its bow. It could proceed under the mortgage or it could proceed under its ownership as the owner of preferred stock?

Mr. BOVARD. FHA did not have the mortgage, of course.

Senator BENNETT. It would eventually get it in the event the mortgage was in default and was turned back by the person who was guaranteed by FHA.

Mr. BOVARD. The principal purpose of it was to control rents. It may be that the building corporation was charging rents in excess of the schedule approved by us and that the mortgage was in perfectly good standing.

Senator BENNETT. Did your ownership of the \$100 worth of preferred stock give you the power to move in and take over the management in the event of violation of the rental agreement?

Mr. BOVARD. Absolutely.

Senator BENNETT. Then that was the reason for that particular device?

Mr. BOVARD. Yes.

Senator BENNETT. You and the chairman have engaged in quite a discussion as to why you insisted on a corporation and you couldn't give him any answer.

Could it be that you required a corporation entity in order to have this preferred-stock provision?

Mr. BOVARD. That was the principal reason, no question about it.

Senator BENNETT. Why didn't you tell the chairman that 15 or 20 minutes ago?

Mr. BOVARD. I am sorry.

The CHAIRMAN. You say you did that in order that you would have this preferred position with \$100 worth of preferred stock. That still doesn't answer the question as to why you didn't require the stockholders to endorse the mortgage, or a portion of it, which you didn't do in any instance. Is that right?

Mr. BOVARD. That is right, it didn't answer that. My answer was that was merely that I didn't believe they would do it.

Senator BENNETT. I would just like to make one other observation. I am puzzled by the assumption that you can control rents if you are dealing with a corporation but you can't control rents if you are dealing with an individual.

During the housing hearings, the rent control hearings in this committee over the last 2 or 3 years, we have had literally hundreds of witnesses come before us, individuals who owned and rented property and who found themselves controlled by Federal rent controls.

That operated whether they were individuals or corporations. I can't see why your program wouldn't have operated just as effectively.

Mr. BOVARD. Well, I don't say that we couldn't have devised such a plan prior to the insurance, but it was not done, and after the mortgage was insured, the only authority we would have to control these borrowers and the amount of rent that they could charge would be by virtue of our preferred stock or contract obligations or agreements with them.

Senator BENNETT. Well, it was the only opportunity you had, because that was the method you chose. I think it would have been possible to have devised a method or a contractual relationship that would have worked just as well with an individual.

Mr. Chairman, I would be interested, since we have covered quite a range in the last hour, and also since we are to hear Mr. Murphy and later on Mr. Prothro, to know just what the functions of the General Counsel's office are, what Mr. Bovard's responsibilities were in the agency.

Can you sketch those out for us, Mr. Bovard?

Mr. BOVARD. I tried to do so in a general way, to indicate that it is our responsibility to advise the Commissioner and the staff with respect to the legal aspects of any proposals or actions which he is about to take and also to assist in revising rules and regulations and statutory changes, legislative proposals.

Senator BENNETT. You don't initiate any policies then?

Mr. BOVARD. No.

Senator BENNETT. You simply advise on the legality of the policies initiated by the other sections?

Mr. BOVARD. The legal effect.

Senator BENNETT. Was the investigative staff of the agency under your control?

Mr. BOVARD. That is right.

Senator BENNETT. Were you in a position to determine whether or not an investigation should be made or should not be made, or was that power or responsibility in the hands of someone else?

Mr. BOVARD. It was in the hands of the Legal Division.

Senator BENNETT. Then any complaints were sent to you and you determined whether or not they should be followed up or whether they could be investigated?

Mr. BOVARD. They were followed up in every instance where we had been available to follow them up.

Senator BENNETT. Early in the testimony we were told that attempts were made to get investigative action on this title I problem long time before it actually occurred.

Were you conscious that as early as last April, Mr. Cole of the Housing and Home Finance Agency was interested in trying to run down and investigate these title I scandals that were showing up in various parts of the country?

Mr. BOVARD. Yes; we were also interested in doing that.

Senator BENNETT. Do you figure that you were as active as you could have been under the circumstances?

Mr. BOVARD. Absolutely.

Senator BENNETT. Did any of those investigations since April 1953 result in prosecution or in the removal of FHA personnel?

Mr. BOVARD. You are not talking about title I investigations?

Senator BENNETT. I am talking about title I. I understand that you conducted no investigations on section 608, that there was no problem.

Mr. BOVARD. I don't recall.

Senator BENNETT. You were not alerted to that problem until after the story was released here in Washington through the Internal Revenue Service?

Mr. BOVARD. Our Investigation Section was under the immediate supervision of Mr. Murphy. Mr. Hillock was our Chief Investigator and had his crew, and then Mr. Murphy was in charge of the investigations there.

He directed Mr. Hillock what investigations to make and when to make them, as far as possible. He may be able to give you more specific information as to what cases were prosecuted and so forth, and whether or not any of the FHA personnel were let out by reason of them. I didn't know that there were any.

Senator BENNETT. I don't know either. I was just asking the question.

Mr. BOVARD. I do not know the details with respect to any particular cases.

Senator BENNETT. Going back to the question of your function, testimony has also brought out that the question of inclusion of certain types of home improvement or certain products that were offered

as being eligible for home improvement, that that determination involved your Department.

The question was referred to your Department for determination as to whether the particular product or the particular property came within the law.

Mr. BOVARD. That is right.

Senator BENNETT. Was there any other type of determination affecting the program, any other similar type of determination referred to you?

Mr. BOVARD. Well, questions may have come up, certainly, with respect to eligibility of homes for mortgage insurance.

Senator BENNETT. Specific cases?

Mr. BOVARD. Yes. Whether or not, for instance, some of them were not entitled to a 90-percent loan unless they were approved for mortgage insurance prior to the beginning of construction by a statute which involved a legal determination and so forth.

Senator BENNETT. To what extent have you been involved in these precautionary lists, or your Department, and in the relationship of the FHA with the lending agencies?

Do you know of any cases where the FHA has taken lending agencies off of its list and forbidden them any longer to make title I loans?

Mr. BOVARD. I am convinced that we have had cases where the lending agency—but that is quite separate from the precautionary list.

Senator BENNETT. There are two lists, I recognize that.

Let me ask the question in another way.

Did your Department have any responsibility for determining whether or not specific lending agencies should continue to have the privilege of making title I loans?

Mr. BOVARD. In connection with the legal aspects, as to whether they were entitled to a hearing or whether we thought that the facts of the case would justify a cancellation of the title I insurance contract, yes indeed.

Senator BENNETT. To what extent were you involved in the makeup of these precautionary lists?

Mr. BOVARD. Very little with respect to the makeup, what individuals would go on the precautionary list.

The CHAIRMAN. If the Senator will yield, why don't we call Mr. Murphy and have both of them here?

Mr. Murphy, will you come forward, please? Mr. Murphy, will you be sworn in, please?

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF HOWARD M. MURPHY, FORMER ASSOCIATE GENERAL COUNSEL, FEDERAL HOUSING ADMINISTRATION

Mr. MURPHY. Yes, sir.

The CHAIRMAN. Will you be seated, Mr. Murphy? You can both use the same microphone.

How long have you been with the FHA, Mr. Murphy?

Mr. MURPHY. A little over 16 years.

The CHAIRMAN. And you are the Assistant General Counsel?

Mr. MURPHY. The past title was the Associate General Counsel.

The CHAIRMAN. Can you tell us—

Mr. MURPHY. I have a prepared statement, sir.

The CHAIRMAN. Do you want to read a prepared statement?

Mr. MURPHY. Yes, sir.

The CHAIRMAN. How long a prepared statement is it?

Mr. MURPHY. It is only about 5¼ pages.

The CHAIRMAN. Do you have any objection to my asking you a few questions before you read your prepared statement?

Mr. MURPHY. No, sir.

The CHAIRMAN. Then why don't you just be seated.

Have you resigned from the FHA, Mr. Murphy?

Mr. MURPHY. Yes, sir; I have resigned.

The CHAIRMAN. Did they accept your resignation?

Mr. MURPHY. Yes, sir.

The CHAIRMAN. Mr. Bovard, have you resigned?

Mr. BOVARD. No; I have not.

The CHAIRMAN. Did they request your resignation?

Mr. BOVARD. They did.

The CHAIRMAN. And so far you have refused to quit?

Mr. BOVARD. Yes.

The CHAIRMAN. Mr. Murphy, are you familiar with this list of items that were supposedly financed under title I?

Mr. MURPHY. I am not familiar with the specific list, Senator, but 'm—

The CHAIRMAN. Are you familiar with the fact that there is such a list?

Mr. MURPHY. I understand that; yes, sir.

The CHAIRMAN. Did you, as the Assistant General Counsel, or whatever your official title was, pass upon these yourself or do you now who did pass upon them?

Mr. MURPHY. I think that perhaps about four of us, during the process of the years, have passed individually on those specific items.

The organization of the Legal Division is set up so that we have two men who specialize primarily in title I problems.

The CHAIRMAN. What are their names?

Mr. MURPHY. Presently, the staff is Mr. Warren Cox and Mr. Prothro, who has been acting in a supervisory capacity in regard to the men in the title I legal work.

The CHAIRMAN. Tell us just how these different items would get on the approved list.

Mr. MURPHY. I am sure that they come about this way: There are requests made by a customer of a bank as to whether or not title I financing is available for a particular article or a particular repair or improvement, or a manufacturer may want to engage in a program, and either the lender or the manufacturer, even the borrower, may write in to the Washington headquarters and ask the question: Is this particular item—this particular repair or improvement—eligible for a title I loan?

The CHAIRMAN. And then who would pass upon it here?

Mr. MURPHY. It would come into the administrative section and it would either be passed upon by Mr. Cox initially, in consultation, perhaps, with Mr. Prothro, and then until recently we had another attorney who specialized on this work by the name of Mr. Benning. If the problem fell under the general outlines of the precedents that

had been established and previously discussed with either the General Counsel or myself, they would go right ahead and make the decision.

If there were any errors or disputes or questionable aspects, it would either be discussed further and ultimately put in either the General Counsel or myself or Mr. Prothro, who pass on it.

The CHAIRMAN. That is the way a new item would get on it.

Mr. MURPHY. That's right.

The CHAIRMAN. How would you handle this so-called black dealers?

Mr. MURPHY. Well, there is a detailed administrative procedure that is in effect in the field offices and the legal division has not participated directly in it other than to go over and assist the administrative people in the drafting of the procedures that are designed to avoid any legal implications. I am certain that either Mr. Prothro or myself have passed upon and have read, word for word, the administrative procedures that have been set up. I have had occasion to review that procedure and it involves a very careful and fair way to handle these complaints. The general procedure is substantially as follows:

A complaint comes in to the lending institution or a complainant comes in to the local director in a particular area. The local director under his instructions is required to call upon the complainant, the director himself or one of his immediate staff. He tries to determine what is the nature of the complaint. Depending upon what the nature of the complaint, he attempts to, the FHA fieldman, resolve the differences. If it is a question of incomplete work or shoddy work or maybe some performance item or some promise that hasn't been fulfilled and so forth, the director, or his designated employee, goes to get the dealer and in a lot of instances they obtain the cooperation of the lending institution, to resolve the differences. In many instances these differences are resolved and the work is done and the complainant is satisfied.

In those areas where the complaint cannot be satisfied, the procedure is for the director, through his staff, to reduce to writing the complaint and what efforts he has made to adjust it, what action he has as to the responsibility of the dealer, any pertinent facts that have to do with the particular transaction that would be helpful to the Washington staff in making a review. That information then comes to Washington. There are, as I recall, in the administrative section, a staff of 2 or 3 men who handle those complaints, maintain a dealer complaint file. When the material comes in, they check the dealer complaint file and go over the information and consider the local director's recommendations. If they find that the action is justified, then they will recommend to the Assistant Commissioner in charge of title I, or his deputy, that the particular complaint warrants the precautionary measures.

Senator MAYRANK. Where do most of the complaints come from, what State?

Mr. MURPHY. From what State?

Senator MAYRANK. Were most of your complaints from Washington or Virginia or South Carolina or New York?

Mr. MURPHY. I'm sorry, sir, I don't have any idea.

Senator MAYRANK. You lie.

Mr. MURPHY. Yes, sir.

Senator MAYBANK. You don't have any list of those complaints, do you?

Mr. MURPHY. I do not know. I know that there is quite a record kept of the dealer complaint file. There are cards kept on every dealer where we have had a complaint.

Senator BENNETT. Mr. Murphy, since the chairman is going to be absent for a few minutes, and since your statement is a definite thing, I think we might as well proceed to read your statement so that the chairman can participate in any further questioning when he returns.

Senator MAYBANK. Might I ask one question, Mr. Chairman?

I have another subcommittee going on and that is why I was not here this morning. Did either of you ever fail to cooperate with the Justice Department in the prosecution of any of these section 608 cases?

Mr. MURPHY. No, sir.

Senator MAYBANK. Mr. Olney stated here yesterday, I understand, that there had been a lack of cooperation.

Mr. MURPHY. I have not been informed, nor do I have any information.

Senator MAYBANK. I have a quotation here from a letter that Mr. Cole wrote to Mr. Hollyday in which he tells Mr. Hollyday that there was a kickback of some 11 percent between a contractor and that the FBI report developed evidences that there was a signed agreement whereby the construction contractor agreed to kick back to the original project owner 11 percent of each construction advance of mortgage procedures. Then, I understand that Mr. Hollyday wrote back, and you gentlemen were his lawyers:

Insofar as we can ascertain it would appear that the signed agreement was entirely a matter of private contract between the owner and the contractor and regardless of the fact that such arrangements may be undesirable and would be administratively disapproved if known. It would seem difficult to establish that the interests of the FHA had been jeopardized by the kickback agreement.

Did you suggest that, Mr. Bovard?

Mr. MURPHY. That is a case of which I have personal knowledge, Senator, and I have included in my statement some remarks in explanation.

Senator MAYBANK. I'm sorry I can't stay for your statement, because we have got to go to the Agricultural Subcommittee. We have the REA over there and a lot of things of interest to my people. My people are disgusted with this thing. I want to ask you if you cooperated with the FBI?

Mr. MURPHY. Yes, sir.

Senator MAYBANK. You never failed to cooperate?

Mr. MURPHY. No, sir.

Senator MAYBANK. And you also?

Mr. BOVARD. Yes, sir.

Mr. MURPHY. In this particular case.

Senator MAYBANK. I am not interested in just this one case. I am interested in a whole lot more that I know haven't come out yet. You have given them full cooperation as far as you could?

Mr. MURPHY. Absolutely, and we have had full cooperation from them on many occasions.

Senator MAYBANK. I only saw Mr. Olney's testimony. Unfortunately, I wasn't here. I was excused by the Senate, on Friday. I am sorry I didn't hear Mr. Olney's testimony. You didn't think that an 11 percent kickback agreement was jeopardizing the FHA?

Mr. MURPHY. Briefly, sir, the facts were that an application was filed for mortgage insurance. We processed the application on the basis of the plans and specifications as submitted. It was section 608. Based upon the estimates made by the local insuring office, a commitment to insure was issued. After the commitment was issued, the mortgage amount determined, and the conditions determined, then a construction contract was negotiated between the sponsors and a contractor. It is my understanding from the FBI reports which I have read, that subsequent to that time the sponsors and the contractor entered into a signed agreement under which the contractor was supposed to return to the sponsors individually, as I recall, some 11 percent out of each advance on the mortgage procedures.

Senator MAYBANK. That is what you say here.

Mr. MURPHY. That's right. The only point that we had involved that Mr. Olney asked us, was what evidence we could testify to from the FHA records as to what took place on the main point as to whether or not the FHA, within the criminal statute, its action had been influenced, its action in determining the mortgage amount and the conditions of insurance. We felt it our duty and responsibility to advise Mr. Olney as to what the procedure was and what we could establish or what could be established from our records. I want to emphasize—

Senator MAYBANK. What about the FBI record of the kickback that took place afterward? Did the mortgage run above the amount? Did they declare a dividend?

Mr. MURPHY. I do not know. I have not reviewed this file since July of 1943, but I understand that the contractor went broke.

Senator MAYBANK. In other words, the contractor went broke; he didn't make anything?

Mr. MURPHY. No, sir.

Senator MAYBANK. What about the fellow who was dealing with the contractor?

Mr. MURPHY. The sponsors of the project? I do not recall.

Senator MAYBANK. In what condition is he, do you know?

Mr. MURPHY. I do not know.

Senator MAYBANK. In other words, this was a case they brought up here in which the contractor went broke and you do not know whether the sponsor made any money out of it?

Mr. MURPHY. No, sir, I do not know. I have some slight recollection that the sponsors may have had to finish the project themselves.

Senator MAYBANK. And, therefore, they didn't mortgage out or make any money off it?

Mr. MURPHY. I do not know.

Senator MAYBANK. Unless it was some deal that you knew nothing about until after it was exposed by the FBI and by that time the contractor had gone broke?

Mr. MURPHY. That's right.

Senator MAYBANK. I couldn't understand it being brought out here when they have \$24 million cases in New York and they want to bring out some little thing like this.

MURPHY. I must be frank, sir, and say that I couldn't understand either.

MAYBANK. I don't know any of the parties in it.

MURPHY. That was a case in which I took particular interest. I am well aware of our responsibilities to cooperate with the Department of Justice and I did not want to be—

MAYBANK. I didn't say you didn't. I just asked you the question under oath and both of you say you have cooperated with the Department of Justice and both of you say you have cooperated with the FBI. I never did hear from Mr. Hoover that you failed to cooperate. It looks to me like he would have told the Appropriations Committee that when he comes there every year and asks us for appropriations. I have been one that always backed Mr. Hoover. He has helped him get increased appropriations, but I never did see any agency of the Government didn't cooperate with him until the agreement was made last week. You saw that in the paper, didn't you?

MURPHY. Yes, sir, I did.

MAYBANK. I couldn't understand it. Thank you.

MURPHY. I could not understand it myself.

MAYBANK. I have never heard of such a charge.

BENNETT. Are you through, Senator?

MAYBANK. Yes.

BENNETT. Before you start to read your statement, Mr. Murphy, Mr. Greene, who was before us this morning, has asked that a portion of his statement before the House Independent Offices Appropriations Subcommittee be inserted in the record at the end of his testimony this morning.

Without objection, it will be offered for that purpose. (See p. 1692.)

Mr. Murphy, we will be happy to have you read your statement.

MAYBANK. Mr. Chairman, I would like to read Mr. Cole's concluding paragraph so as not to be unfair. In the concluding paragraph he says, "Perhaps my feelings are due to unfamiliarity with the details of FHA operations."

I can well understand that. Mr. Cole had just come into office and I want to make that clear. "But I cannot help but feel that the interests of FHA are jeopardized in the nonlegal use of the term 'emergency' in such a situation. It may well be that the facts will not support my action by the Department of Justice."

That is what you suggested to the Department?

MURPHY. I merely gave them the facts, sir, feeling that they should make the decision themselves.

MAYBANK. "But FHA can take appropriate administrative action or refuse to extend the benefits of the system to those who participate in such admittedly undesirable practices," and to that I fully agree, "would it not be wholly in the public interest for you to do so?"

MURPHY. There is an answer to that memorandum over Mr. Murphy's signature which says that that is being done.

MAYBANK. That has been done and the contractor went

MURPHY. That is as I recall it.

Senator MAYBANK. Thank you.

Senator BENNETT. Are there any other questions before Mr. Murphy begins?

Mr. MURPHY. Mr. Chairman and members of the Senate Banking and Currency Committee, I am Howard M. Murphy, of Arlington, Va.

Beginning in February 1938 and until the close of business, 23, 1954, it was my privilege to be associated with the Federal Housing Administration and to have had some small part in the drafting of amendments to the National Housing Act which were considered by this committee.

It is my understanding that the purpose of these hearings is of the committee's consideration of the pending housing bill. I am informed it has been stated here that I might be able to present information of value to the committee, and I stand ready to do so in any way I can.

It was my duty to actively participate in the drafting of the language of the amendments contained in the pending bill affecting the National Housing Act, and to have conferred with Mr. Cole's staff as well as the staff of the House Banking and Currency Committee with respect to such amendments.

One of the subjects with which the committee has heard testimony concerns the title I repair and improvement loan insurance program and the abuses in that program on the part of unscrupulous and dishonest dealers and salesmen.

The abuses do exist and have existed and to my knowledge the FHA has constantly battled with the problem and has continually studied ways and means to protect the borrowers, and to devise and means of driving dishonest operators from the program. One point I believe the members of the advisory committee on title pointed out by Mr. Hollyday in June of 1953, and in particular, Mr. Andrew Painter, vice president of the National City Bank in New York, could give this committee valuable information as to the attitude toward correcting abuses and strengthening the program evidenced in the meeting of that title I committee held in Washington on September 16 and 17, 1953.

Senator MAYBANK. Are you familiar with the people in New York who borrowed all the money under section 608?

Mr. MURPHY. No, sir.

Senator MAYBANK. Are you familiar with the corporations?

Mr. MURPHY. Somewhat, yes, sir.

Senator MAYBANK. I want to ask you some questions about some of them.

Senator BENNETT. At this point, Mr. Murphy, I should like to briefly repeat the question I asked of Mr. Bovard. Your statement says that FHA has constantly battled with the problem and continuously studied ways and means to protect the borrowers. Did you ever consider a public information program which would notify the borrowers that this kind of swindle existed?

Mr. MURPHY. I have talked to the administrative people on many occasions and it is my understanding that there is and has been when occasions arose, some publicity and releases through the director of the local insuring office.

Senator BENNETT. Can you give us any examples of those recently?
Mr. MURPHY. No, I cannot. I suggest, sir, that the title I administrative people—

Senator BENNETT. Do you know whether or not such a program was developed when these California scandals came to the attention of the agency?

Mr. MURPHY. I do not know, sir.

Senator BENNETT. You may proceed.

Senator MAYBANK. You know who brought out those California scandals, don't you?

Mr. MURPHY. Yes.

Senator MAYBANK. Who brought them up? You can answer that question.

Mr. MURPHY. I was just trying to recall the first instance that I had heard about, associated with corporation X activities. I believe the first time I heard about it was—and I can't be positive but I think it was either April or May of 1953.

Senator BENNETT. And from what source?

Mr. MURPHY. I believe the information came from two sources. I believed it came from the administrative people within our own shop, in some extent and from FBI reports, copies of FBI reports that were forwarded to us through Mr. Cole's office.

Senator BENNETT. Thank you.

Senator MAYBANK. Well, you got a lot of this information out of magazine articles, didn't you?

Mr. MURPHY. I am not sure about that, sir.

Senator MAYBANK. You have seen the magazine articles, haven't you?

Mr. MURPHY. Yes, sir.

Senator BENNETT. That is what is known as the Will Rogers system: all we know is what we read in the papers."

Senator MAYBANK. I am afraid that applies to us sometimes, which must regret.

Mr. MURPHY. It has been said here that Mr. Hollyday inherited the section 608 program. I suggest that he also inherited the title I program and the abuses about which so much has been said here.

Because of my personal interest and effort to correct abuses of any nature in the title I program, I honestly believe that the most constructive action taken by the FHA to curb and control dishonest and fraudulent dealers took place under Mr. Hollyday's leadership.

He appointed a committee of the outstanding leaders in the consumer credit field to advise him on title I problems. When his attention was called to the need for positive action to strengthen the program he sent the committee the proposals of the FHA and asked them to come to Washington to discuss the problems with FHA personnel and to give him definite recommendations. The changes made in the administrative regulations are of extreme importance in any examination and appraisal of the administrative policies while Mr. Hollyday is Commissioner. Over the years many conferences and discussions took place between the administrative and legal personnel, and with representatives of lenders in efforts to improve then existing procedures.

The area of disagreement invariably was the extent to which responsibility could be placed on the lenders and at the same time preserve the benefits of the program.

Undoubtedly the lenders were confronted with many problems of their own and were sincere in their belief—as I understood it to be—that the principal weapon to control abuses was for the FHA to have more and more policemen on the beat. The legal division of any program which needs that much Federal control was of questionable merit for participation by the Government and expressed the view that since the program was directed to a means of helping lenders give greater service to their customers, the long-range aim to the exclusion of dishonest dealers was more careful selection of the customers—dealers and borrowers—by the lender and more strict supervision of the performance of such customers in the use of the credit the lender made available.

This approach seemed particularly sound in view of the wide latitude given to the lenders under the regulations.

The initial discussions which led to the issuance of the amended regulations issued October 28, 1953, took place in my office in June or early July 1953. It was agreed to draft specific and definite proposals directed to the assumption of greater responsibility on the part of the lenders, and subsequently drafts were prepared and discussed in general terms with Mr. Hollyday and in detail with one of his assistants. It was then sent to the title I advisory committee for advance study.

I was not present when they met in Washington on September 16 and 17, but my immediate associate attended and kept me advised.

As I understood, the initial reaction of the group was not favorable to the FHA proposals, but after much discussion and strong representations by the FHA personnel as to the urgency and need for positive action, the committee recommended the changes which were put into effect on October 28, 1953. It is too early to forecast the long range effect of these amendments, and it is not suggested that they will cure all the abuses, but it is believed these changes represent a major and important step in that direction.

Senator BENNETT. You are referring now to the 4 or 5 new regulations issued at the end of 1953 which have already been presented to the committee?

Mr. MURPHY. That is right, sir.

Senator BENNETT. Thank you.

Mr. MURPHY. At the time Mr. Hollyday took over the existing problem with respect to an adequate staff to investigate compliance approval seemed certain of the employment of additional investigators. To the best of my recollection, we requested funds to hire additional men in the fiscal year 1954, and were finally authorized to employ 5 men. Recruitment difficulties were encountered so that at the end of December 1953 we had been able to fill only 3 of the positions.

Two more men were hired in early 1954 and on April 13, 1954, all of the 10 men doing investigating work were at work. I advised that on April 13, 1954, there were 70 cases pending for investigation; 17 cases, involving approximately 66 loans, under investigation; and 12 completed investigations in which the reports were in process of preparation. We get estimates for the fiscal year

the staff of 10 and consequently the ability of the staff to investigate seemed particularly favorable.

Subsequent to Mr. Hollyday's appointment and over the past years members of the Legal Division, including myself, had many conferences with representatives of the Criminal Division of the Department of Justice regarding specific complaints; emergency investigations; appearances before grand juries and matters concerned with trial of cases investigated by FHA, and all of these discussions took place under conditions of full cooperation and recognition of mutual problems. In July of 1953, the chief of the Division of investigation and my immediate associate called at the Department to request approval of a proposal previously discussed with the United States district attorney in San Francisco, Calif., to remove some of the California title I cases to the grand jury prior to the commission of a report by the FHA. I was present at the meeting with Mr. Hollyday had with Mr. Olney in December of 1953, to which Mr. Hollyday has made reference. I was also present at a meeting which Mr. Hollyday had with two members of Mr. Olney's staff on January 1, 1954. I understand that Mr. Hollyday has stated here that neither Mr. Olney nor any member of his staff informed Mr. Hollyday of the conditions to which the Department has made reference in these reports.

Mr. Hollyday was the head of the FHA, having been appointed by the President with the advice and consent of the Senate, and it would have seemed logical for him to have been advised.

Mr. Hollyday became Commissioner of the arrangements had been completed between the Administrator, HHFA and the Department. He referred all FHA business concerning investigation first to the Administrator and consequently FHA lost direct contact with the Department.

In respect to further amendments to the National Housing Act to the subject of the correction of abuses, I do not believe that specific legislative changes are needed. Consideration might be given to further administrative action in the following directions—elimination of coinsurance—which subject was considered by the Title I Committee on September 16 and 17, and held for further consideration the position of small lenders; elimination of dealer loans; reorganization of all work where the loan exceeds \$1,000 or \$1,500 or over that amount.

Mr. BENNETT. May I interrupt you at that point? Do you desire rather substantial changes in the pattern of the title I insurance should be done by administrative action rather than by amendment to the law?

Mr. MURPHY. Yes, sir, I do. The following paragraphs discuss the coinsurance point.

Mr. BENNETT. Senator Bush?

Mr. BUSH. I was just going to ask you to explain briefly what the coinsurance is that you have in mind.

Mr. MURPHY. As I understood that discussion by the Title I Administrative Committee, it was that instead of paying 100 cents on the dollar, the lender had the reserve for that purpose, we would only pay 80 percent, so that the lender in case of any loss would be co-insured or would carry his own insurance up to 10 percent or 15 percent or whatever figure it might be.

Senator BUSH. In any default the Government would presumably stand 80 percent of it, if that were the figure, and the lender would absorb the other 20 percent?

Mr. MURPHY. That is right. The large lenders wouldn't have as much problem as the small ones, the lenders who did not have in excess of the reserves to cover the losses.

Senator BUSH. And that would apply in the case of every loan, it wouldn't be as carryover? This 20 percent wouldn't build up a cushion?

Mr. MURPHY. That is how I understand it.

While not directly related to elimination of dishonest dealers, it has seemed to me that title I program should be confined to repairs and improvements to existing homes, and that the Congress might express the policy it desires to be followed with respect to so-called essential repairs as distinguished from repairs which might be classified nonessential.

My attention has been called to the reference made by Mr. Olney in regard to two section 608 loans which the Department investigated and considered for criminal prosecution, one in South Carolina and the other in St. Louis, Mo. A letter to the Department over the signature of B. C. Bovard discussing the Williams case was read into the record and it was pointed out that such letter had been dictated by me. This letter was dated in April 1953. I mention this particular case not only because it concerned actions attributable to me, but also because I read no mention of a second letter which I also dictated to the Department on the same case, and more importantly because I believe the position of the FHA was not made clear to the committee. An editorial appearing in the Evening Star on Monday, April 26, 1954, convinced me that erroneous implications of serious wrongdoing on the part of the FHA had resulted from the statements made by Mr. Olney on this case. I would like to read into the record the following extract from that editorial:

Assistant Attorney General Olney supported this opinion in accusing the FHA of allying itself with the lenders and builders rather than the purchasers or realtors. Mr. Olney made a further serious and more explicit charge when he told the committee that the housing agency had torpedoed any chances of Government prosecution of speculator-builders who had obtained highly profitable loans after giving false cost estimates to FHA. The agency has done this, Mr. Olney explained, by insisting that it disregarded the outside estimates as was not being defrauded by them.

The complete investigation file is in the possession of the Department of Justice and while copies are in the FHA files and the files of the HHFA, I have not reviewed the case since July of 1953. However, the facts are particularly clear in my recollection because of the efforts I personally made to correctly determine and advise the Department of the facts as disclosed by the FHA records.

The first letter was written in April of 1953 and we received a reply requesting we give the case further study. We again wrote the Department in June or July of 1953, and at that time I again went over the file carefully with other members of the Legal Division, as well as with the head of the technical section of the Underwriting Division from whom I obtained some of the wording as to processing procedure. As I recall the principal difficulty in establishing a criminal case concerned the extent to which, if any, that a side agreement was presented to or influenced the FHA determinations of the

mortgage amount. We explained that the application had been processed and all determinations of mortgage amount and conditions were completed and the commitment issued before we saw the contract which was presented. It is probably true that in most cases such contracts are not negotiated until the commitment is issued and the mortgage amount and conditions of insurance are known. In any event, I felt it was my responsibility and duty to advise the Department of the correct facts, and then the Department could then determine if a criminal case could be sustained. The FHA took no action to withhold or obscure information, change the facts, nor in any way, to my knowledge indulge in any wrongdoing. The implication is nevertheless given that the FHA currently took a positive action to impede or hinder the prosecution of a criminal offense. The record will not support such a charge or implication, but rather a desire to make all the facts available to the Department for its use in reaching its decisions. Whether the Department believes we should have been influenced in the original instance does not change the fact at this time that we were not influenced. The attitude of full cooperation by FHA is expressed in the last paragraph of the second letter where we offered to make available our technical man for further discussions if the Department wished further clarification of FHA procedures. So far as I know the FHA heard nothing further from the Department. I wish to assure Mr. Olney and this committee that all of the FHA personnel who worked on this case took our responsibilities seriously and made every effort to be completely accurate. We did not, directly or indirectly, have any wish or desire to protect any builder or to torpedo the Government's chances of a successful prosecution.

I have gained a great deal from my association with the FHA, and while my direct association has ended, I still have a sincere interest in the development of legislation affecting its functions and programs.

Senator BENNETT. Mr. Murphy, your reference to this second letter suggests that since we have the first letter in the record of the hearing, we probably should have the text of the second letter. Is that available to us?

Can you supply it?

Mr. MURPHY. I cannot, sir.

Senator BENNETT. Perhaps Mr. Prothro or the staff can obtain that for us. (See p. 1621.)

If it is true, as indicated by the first letter which I have before me and the second letter which will be inserted in the record of the hearings, that in effect as long as the FHA is insured as to its estimate of costs, and that it has no legal right to be concerned with actions that take place with respect to the project after the mortgage has regularly been issued, we should have some changes in the law which will give the FHA or the Department of Justice some right to concern themselves about such things as side agreements and other devices that might be used to nullify the spirit, at least, of the FHA program, which would indicate that the Government was prepared to guarantee up to 90 percent of the loan. We talk on this side of the table of the actual cost of the project. Over there on the other side you talk about your interpretation of the law which says that it is 90 percent of the estimated replacement

value. Maybe we had better get into some of these other things. Do you think that is a proper concern of ours?

Mr. MURPHY. I think that anything that has any flavor of irregularity or undesirability in the transaction certainly is a proper subject to try to get into and see that it is all handled on top of the board. I am sure that the attitude of the FHA, or at least the associations that I had, was that we didn't like any type of underhand action.

Senator BENNETT. In response to Senator Maybank's questioning, you told us that the builder in this particular case went broke, and we assume that he paid a kickback of \$3,000.

Mr. MURPHY. It was based, I think, on 11 percent.

Senator BENNETT. Of what?

Mr. MURPHY. Of the amount of the construction contract.

Senator BENNETT. Can you remember how much the construction contract involved?

Mr. MURPHY. No; I do not.

Senator BENNETT. I have the figure "3" in my mind, but I can't remember whether it was in the nature of \$300,000. It must have been in the hundreds of thousands of dollars or you wouldn't have had anything big enough to qualify for section 608.

Are we to understand, then, that the Legal Division realized all the time how this section 608 program was operating and that no matter what happened after the mortgage was actually executed, that the FHA had no recourse. That as long as the mortgage was made out for an amount no more than 90 percent of the agency's estimate, that no matter what happened in the relations between the builder and the sponsor, the FHA had no opportunity to inject itself into the problem?

Mr. MURPHY. I think that is correct, sir; but I want to point out that in the particular Williams case that we were discussing, we were concerned in the correspondence with the Department as to the evidence supporting a violation of the criminal statute.

Senator BENNETT. Here we have a case. I am not a lawyer. It seems to me that the Department of Justice felt that it had a case.

Mr. MURPHY. I am sure of that.

Senator BENNETT. On the basis of its reading of the law. I imagine it must have read the law, as well as having investigated the facts in the particular case. Your department came along and said, in effect, "We don't know how you read the law but in our opinion you have no case."

The necessary requirements of the law had been complied with. I imagine that is the attitude that brought forth the word "torpedo" to which you object.

Mr. MURPHY. We didn't quite say that, sir.

Senator BENNETT. I know you didn't say, "torpedoed."

Mr. MURPHY. No, sir, and we didn't say that they didn't have a case. All we said was that we felt it was our duty to point out what the facts in the record would disclose. Beyond that, it was up to the department to proceed or not to proceed on the basis of their own analysis, as in any other case, as to whether the evidence will or will not support the case.

Senator BENNETT. How long had you known before you discussed this particular case with the Department of Justice that there might have been windfalls under section 608?

Mr. MURPHY. I did not know.

Senator BENNETT. This was the first knowledge you had that there were any windfalls?

Mr. MURPHY. I don't know that this is in the category of any windfall, this particular case. It seems to be in a little different category.

Senator BENNETT. Was the Legal Division alerted to the constantly turning suspicion that there had been widespread windfalls under his program?

Mr. MURPHY. I had heard, sir, about the idea of mortgaging out room time to time, but I had no knowledge of any specific cases nor do I have any knowledge of any particular requests for legal advice or participating in any discussions.

Senator BENNETT. I will not pursue that further, because it has been pursued by other questions which would indicate that the representatives of the agency have appeared before the committee and given the committee assurances that it could not possibly have happened. There is no use in beating that particular drum any longer.

Do you have any questions, Senator Bush?

Senator BUSH. Yes. I was just going back to page 2, near the middle, here you say the Legal Division felt any program which needs that much Federal control was of questionable merit for participation by the Government.

That is a suggestion that has impressed me very much since these hearings began. Did you share that feeling at the time? Did you share that feeling at the time, Mr. Murphy?

Mr. MURPHY. Yes, sir.

Senator BUSH. Do you still feel that that is true?

Mr. MURPHY. I feel that with proper administrative controls and with confining the home improvement program to dwelling accommodations, actual home repairs and improvements, the program still could extend considerable benefit to a lot of homeowners who cannot actually or have difficulty in getting normal commercial loans payable over short periods of time.

Senator BUSH. Therefore, with the reforms that you have in mind it could not be of questionable merit, is that right?

Mr. MURPHY. That is right.

Senator BUSH. If this coinsurance feature that you spoke of, 80 percent and 20 percent, were established in the law, should that, in your view, eliminate the cumulative preference feature entirely from the lender's books?

In other words, each loan would then stand on its own feet and if there was a loss on a loan, no difference how many successful loans had been made, his share of the loss would be borne by the lender.

Mr. MURPHY. I do not have the particular details in mind. I just could, offhand, think that the reserve feature now in effect would be maintained.

Senator BUSH. You do not think?

Mr. MURPHY. I think it would be maintained. At least, that was the thinking. But when the man came in, even though he had a hun-

dred percent reserve, he couldn't get, actually, more than 80 of it, so the Government would only pay him 80 percent, and that would then have to suffer a loss on a particular loan.

Senator Bush. Then what good would the reserve be?

Mr. MURPHY. After all, if he didn't have enough to cover percent, he wouldn't even get that much, if he didn't have the to cover it. You see, what happens on this thing is that he a lates a reserve, and one loss with a small institution could w the entire reserve.

Senator Bush. He accumulates the reserve at the rate of 10 per loan?

Mr. MURPHY. Ten percent on the aggregate amount of loss.

Senator BRIST. Why wouldn't it be better, in your judgment, to destroy the reserve factor entirely and simply let each bank go on its own feet and let the Government be coinsurer for a percent, say, 80 percent, so that at all times the lender would have no liability in the event there was a loss?

Mr. MURPHY. I am afraid I am a little bit out of my field philosophy of it. I would certainly think that approach is logical.

Senator Bush. Do you think it would be a deterrent to the

Mr. MURPHY. It might on the smaller imitations.

Senator Bush. There would be additional risk because they would not have that cushion all the time.

Mr. MURPHY. That is right.

Senator Bush. But it seems to me that that additional effort on their part might be just the thing that is lacking in your situation in establishing more careful procedures in the future.

Mr. MERRILL. That is right.

There is a very real danger that the "new" social movements will become little more than a new form of protest, one that is more visible and more dramatic than the old forms, but that is ultimately ineffective. The new social movements must be able to move beyond protest and into the realm of political action. They must be able to build a broad-based coalition of forces that can challenge the power of the state and the market. They must be able to create a new social order, one that is based on the principles of justice, equality, and solidarity.

[illegible][illegible]

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[illegible]

1. *Chlorophyll a* (Chl *a*) is the primary photosynthetic pigment in most plants and algae. It is a green pigment that absorbs light energy in the blue and red regions of the visible spectrum.

...the

Journal of Management Studies, 19(1), 67-80.

1. *Chlorophyll a* (Chl *a*)

(Signature)

ATOR BEALL. That is the only time?

MURPHY. I did know, sir.

ATOR BEALL. You did know?

MURPHY. I did know, yes, sir.

ATOR BEALL. What did you do to correct them?

MURPHY. Are you talking now about title I programs?

ATOR BEALL. Yes, we will take that first.

MURPHY. For the years that I have had any responsibility at

ATOR BEALL. How many years is that?

MURPHY. That has been particularly since 1940 that I have Assistant General Counsel. We have investigated vigorously with all the staff that we have had available we have gone after abuses in every way possible, through investigation and through liaison with administrative officers in trying to work out im-procedures that would tend to curb these activities.

ATOR BEALL. Were there any charges made against anybody through the legal department?

MURPHY. Yes, sir, there have been many cases that have been referred to the Department of Justice and have been successfully litigated.

ATOR BENNETT. Senator Beall, before you came in we asked to furnish us with a list of all such complaints that have been referred through by investigation. (See p. 1701.)

MURPHY, there are 1 or 2 other questions that I would like to ask.

Do you have anything to do with the writing of the form of charter that has been given to these companies, these corporations that were set up under build section 608's?

MURPHY. No, sir, I did not, with this one exception, sir. There have been amendments from time to time and I have participated in some of the discussions on some of the amendments.

ATOR BENNETT. Do you recognize this language, and I am quoting from the charter:

corporation, its property, equipment, buildings, plans—
underline that—

apparatus, devices, books, contracts, records, documents, and other shall be subject to examination and inspection at any reasonable time by the Commission. The corporation shall keep full and complete records of all corporate matters and directors and stockholders shall keep complete, orderly, accurate books of account, and shall also keep copies—

am underlining this—

written contracts or other instruments which affect it or its property, all of which may be subject to inspection and examination by the Commissioner or his duly appointed agent.

to go on:

at the request of the Commissioner or the holder of a majority of the shares of the preferred stock—

could be representative of FHA—

corporation shall give specific answer to questions upon which information is requested from time to time relative to the income, assets, liabilities, contracts, mortgages, and condition of the property and status of the insured mortgage and other information with respect to the corporation or its property which may be requested.

In the light of that requirement, do you think it can be said to us, as it has been said, that FHA had no right to concern itself, for instance, with this kickback business about which we have been talking earlier? It seems to me that FHA was given almost every right to concern itself with the operation of the property. Do you have any comment to make?

Mr. MURPHY. I think the provisions of the charter govern the rights and obligations of the mortgagor corporation and the controls to be exercised by the Commissioner as holder of the preferred stock. Certainly the Commissioner under the wording of the charter—and it is likewise contained in the administrative rules—can request any proper, reasonable information concerning the operations of the mortgagor corporation.

I think it is important to make that distinction.

Senator BENNETT. The words "proper and reasonable" don't show up. "The corporation shall give specific answers to questions upon which information is desired."

Mr. MURPHY. That is directed toward the mortgagor corporation, that is right.

Senator BENNETT. That is right, but the corporation is required to keep—and I won't reread the whole list, but among other things, "all written contracts or other instruments." Putting the two together, I would assume that the Commissioner had the power, for instance, in this case we were discussing earlier, to find out exactly what had happened with respect to the contract between Warner-Kanter Corp. and the MacDonald Corp. If it wasn't intended that the Commissioner should have used these rights, why should he have been given them?

Mr. MURPHY. The rights were primarily, sir, and I believe the legislative history will support it, for purposes of exercising control of a going corporation, contemplating a situation where the mortgagor corporation has executed a mortgage. The Commissioner has insured a mortgage with the corporation of the mortgagor. In that respect and in relation to the Commissioner's liability as insurer, it is the purpose of these controls to let him get whatever information is needed, first, what might be needed in connection with his insurance operation, and secondary, the controls which the Commissioner exercises under the administrative rules.

Senator BENNETT. Then you do not interpret this language as giving the Commissioner the right to find out what the cost of erecting the project was in relation to the amount of the mortgage?

Mr. MURPHY. If I had been asked that question as to whether we had the right, I believe that I would have taken the position that we would make the request on that basis. In other words, without, however, being able to determine the exact legal obligations between parties, I think if I were asked for us to get the information or could we get it, I think we would proceed on that basis, at least initially.

Senator BENNETT. In other words, you are saying that you felt that under this language the Commissioner did have the right to ask that question?

Mr. MURPHY. I believe that he could have asked the question, but whether the mortgagor corporation could have been forced to comply of course, another matter.

BENNETT. The language is clear.

It shall give specific answers to questions upon which information is desired relative to the income, assets, liabilities, contracts, operation, and condition of the property.

I raised the question because it is my understanding that even since these hearings have begun the FHA has given a specific answer to inquiries saying that it did not have the right to inquire into the question of the cost of these projects. It seems to me that the language here is very, very clear. Mr. Bovard, I would appreciate any comment you would care to make, if you wish to get into this discussion.

Mr. BOVARD. I don't know its particular relation to the facts of this Williams case that was brought out. The point is, assuming that we did get the answer, the point was what could we do about it?

Senator BENNETT. Is there no relationship between errors of estimate which permit a building to be built for a third to a half of the original estimate and the fact that the Commissioner, if he wishes, can dig up that information? We have been doing a lot of talking today about the relationship of FHA to the lender and to the builder. I think we have to keep in the back of our minds the realization that rents on these properties are set on the basis of that mortgage and to the extent that FHA has made it possible, either through inadvertence or for any other reason, to set up a mortgage a third or half again as high as the actual cost of the property justifies. That action of FHA contributes to the injury of the hundreds of people who are going to pay those high rents which are based not on the actual cost of the building, but upon an estimate that FHA makes.

It would seem to me that with this kind of power the Commissioner should have had some responsibility for checking the cost in relation to his responsibility to the renters who eventually are going to pay for that property.

Is it not true that the insurance risk increases to the extent that it exceeds the actual value of the property? I know the answer may be given that the older these properties are and the further the amortization program proceeds, the safer the risk becomes. That is largely true. But, I don't think there is any private mortgagor in the United States who will loan money knowingly far in excess of the actual cost of the property offered to him for mortgage. I am just wondering whether this doesn't represent a deficiency in the operation of FHA. Doesn't it represent a situation where the FHA can say, "Well, we can interpret the law so we have no responsibility?" I don't think the FHA can say, "We were without an opportunity to find out what was going on." Is that a fair statement?

Mr. MURPHY. I think that is a fair statement. I think not only could we have required in the procedures information as to actual cost, I think we could have, if the policy decision had been made, set forth the limitations on the mortgage amount as we presently do in section 213.

Senator BENNETT. Then you are saying that the law was broad enough so that if the administration of FHA had chosen to do so, they could have probably through policy, or decisions have avoided some of these situations we are now being confronted with?

Mr. MURPHY. I think that is correct. Of course, there is a policy question as to whether or not such a restriction would have enabled the program to have been carried out, at least in its initial stages. As I understand, the origination of the section 608 program particularly

was designed to carry housing into immediate production. Whether at some subsequent point some action might have been taken is something else.

Senator BENNETT. Let's go back to that one. The inference is that if these men had not had an opportunity to mortgage out, or to mortgage out plus, none of these houses would have been built. For the sake of the argument, let's accept that. Don't you think the FHA might have been concerned with the extent to which the money received under the program would have exceeded a hundred percent of the cost? In other words, as far as I can tell they just decided there was no limit to which this could go. Maybe if it became necessary to put a liberal interpretation on this program in order to get them built, maybe the agency should have been concerned with the extent to which it would allow that liberal interpretation to produce excessive windfalls. Was that ever discussed to your knowledge?

Mr. MURPHY. Not to my knowledge, no, sir.

Senator BENNETT. A little earlier in the discussion we got into this question of the example of the kickback. Just to keep the record straight, I would like to put the figures back in the record. The project which was testified to by Mr. Olney was the project between the Warner-Kanter Co. and the William MacDonald Construction Co., Inc., and apparently by an agreement afterward the MacDonald Construction Co. agreed to build the building for \$100,000 less than the figures represented by the Warner-Kanter Co. to the FHA.

Later on it also agreed that if additional reductions in cost should be made, 85 percent of those reductions would go to Warner-Kanter and 15 percent to the MacDonald Construction Co. So, my memory was fairly alive to the extent that there was a "3" in the figure. It was \$3,193,915; 11 percent of that would have represented \$300,000. The actual agreement set up a definite figure of \$100,000. If there was an 11-percent difference, we can assume that the cost of building the building represented an amount something like another \$200,000 or the reduction in the cost.

Mr. MURPHY. The 11-percent figure was—I had reference to the Williams case. That was the 11-percent figure. I did not know what the figure was in the other case.

Senator BENNETT. Do either of you gentlemen know why Mr. Powell resigned?

Mr. BOVARD. I don't.

Mr. MURPHY. Speaking for myself, no, sir.

Senator BENNETT. Would you care, Mr. Murphy, to comment on why you resigned? I realize we have no power, nor do we have any wish to embarrass you.

Mr. MURPHY. Well, I think that probably is a fair question. I would like to go back to the question and my answer on Mr. Powell and say that I attended some meetings which I spoke of here in my statement and that under the circumstances I do not feel at liberty to answer that question categorically. I think it is matters that are concerned in the Department of Justice.

Senator BENNETT. Then you feel that the fact that you were a particular meeting makes it impossible for you to submit your own reasons for taking the step that

Mr. MURPHY. No, sir. I'm sorry I did not make myself clear. I wanted to go back to your question concerning Mr. Powell.

Senator BENNETT. You are answering me now as to why you do not wish to comment on Mr. Powell?

Mr. MURPHY. Yes, sir, and not on myself.

Senator BENNETT. Thank you.

Mr. MURPHY. I do not know. I was not given any reason. I was, as a matter of fact, hard at work along about 4:30 and it was suggested to me that perhaps my future was not in the FHA.

Senator BENNETT. Your resignation was requested?

Mr. MURPHY. Substantially so, although being in an excepted position, it could have happened at any day or any time, either prior or subsequent to this particular incident.

Senator BENNETT. Mr. Bovard, was yours the same experience?

Mr. BOVARD. Well, my experience was somewhat similar. I was requested to talk to Mr. Cole and went over to his office. He said he was sorry but he would ask for my resignation. I declined to resign. He assigned no reasons for his asking, other than he gave me assurance that there was no misfeasance or malfeasance involved, but he indicated that some people felt that I had been too rigid and inflexible. My reason for declining to resign was that I didn't think it was timely. With these investigations on, I didn't care to resign at this time.

Senator BENNETT. Mr. Murphy, would you care to say who requested your resignation?

Mr. MURPHY. Well, I suppose the head of the agency at the moment was the gentleman who talked to me.

Senator BENNETT. That was not Mr. Cole?

Mr. MURPHY. No, sir; it was not. I might say, however, that in the period of time that Mr. Bovard was put on leave and the date of my resignation, which was approximately 2 weeks, that I acted in the capacity of Acting General Counsel and did everything within my power to help out the new men that had been sent over by Mr. Cole's office. They were friends of mine and associates of long standing. We had worked on many matters together over the years and our relations were very good. I was particularly and personally pleased at the confidence that they had in working with me. As a matter of fact, we did some important business right up until 4:15.

Senator BENNETT. Thank you very much.

Senator Bush, do you have any questions?

Senator Beall?

We very much appreciate your coming here today. We realize that it has been perhaps a painful experience and we are grateful for the frankness with which you have answered our questions.

The hearings will stand in recess until 10:30 tomorrow morning, at which time we will hear Mr. Mason and Mr. Perce. I think Mr. Perce first, then Mr. Mason.

(Whereupon, at 4:15 p. m., the committee recessed, to reconvene at 10:30 a. m., Thursday, April 29, 1954.)

HOUSING ACT OF 1954
FHA Insurance Provisions

THURSDAY, APRIL 29, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10:45 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bennett, Bush, Payne, Maybank, Douglas, and Lehman.

The CHAIRMAN. We will please come to order.

I have some recent figures on the number of loans delinquent, and so forth, asked for earlier in the hearing. They will be inserted in the record.

(The information referred to follows:)

FHA TITLE I CALL REPORT

PRELIMINARY SUMMARY, MARCH 31, 1954

The following preliminary estimates are based on a tabulation of March 31, 1954, call reports from institutions reporting more than 95 percent of the property improvement loans insured by FHA since March 1, 1950, under title I, section 2, of the National Housing Act.

At that date it is estimated there were 3,600,000 outstanding loans insured under title I, section 2, with aggregate unpaid balances totaling \$1,625,000,000. Of these loans, 50,000 were reported delinquent 90 days or more on March 31. Outstanding unpaid balances of delinquent loans amounted to \$24,700,000, or .5 percent of the total unpaid balances outstanding.

Also, without objection, we will place in the record a letter from Senators Knowland and Kuchel with respect to this bill.

(The letter referred to follows:)

UNITED STATES SENATE,
COMMITTEE ON APPROPRIATIONS,
April 10, 1954.

Senator HOMER CAPEHART,
Chairman, Senate Banking and Currency Committee,
Capitol.

Dear Mr. CHAIRMAN: We would like to draw your attention to S. 3282 introduced by the undersigned on April 8. We are hopeful that the provisions of this bill can be included as an amendment to the committee's Federal housing bill of 1954 when it is reported to the Floor of the Senate.

Under this bill the authority of the Administrator of HHFA would be expanded to allow him to acquire fee titles to property upon which Federally owned temporary housing units are situated where more than 12,000 such housing units exist within any city or in 1 of the 2 contiguous cities. This authority is conditioned upon a finding that such acquisition "will expedite the disposal or

removal of temporary housing under his jurisdiction by facilitating the availability of improved sites for privately owned housing needed to replace such temporary housing." A second condition requires that "the city or a local public agency has, in accordance with authority under State law, entered into a firm agreement to purchase the land so acquired at a price determined by the Administrator to be fair, but in no event less than the estimated cost to the Federal Government of acquiring the fee simple title (including an estimated amount to cover legal and overhead expenses of such acquisition) as determined by the Administrator." No costs under this bill will ultimately fall upon the Federal Government.

The purpose of this legislation is to make it possible to remove, as promptly as possible, much of the temporary housing constructed by the Federal Government during World War II in the Richmond-El Cerrito, Calif., area which has become so deteriorated as to cause the area to be blighted. The population of this area increased far beyond the proportions of almost any other city in the United States during the war as the Government called for more defense workers, and, as the population increased, so did the temporary housing. Many of these units are now over 12 years old and have become shambles which are not fit to live in and must be removed as soon as other housing can be provided.

The Redevelopment Agency of Richmond, created under the laws of the State of California, has developed a plan to remove the blight and construct inexpensive modern permanent housing for the present residents. The plan will be unduly delayed unless the power to acquire the titles to the property for the redevelopment agency is given to the Housing and Home Finance Administrator, for neither private developers nor the agency could acquire these titles without going through cumbersome procedures taking many years to accomplish. The local desire is to get the plan underway and the Federal Government's assistance here will assure the fulfillment of that wish.

The procedures authorized in this bill previously appeared in the statutes as section 405 of the Korean War Housing Act of 1951. The provision was never used because of the freeze on the removal of temporary housing during the Korean war. Section 405 was repealed along with the remainder of the act on June 30, 1953 before the benefits of the legislation could be realized in the Richmond-El Cerrito area.

It is our hope that the committee will reenact this law and make it possible to provide an answer to Richmond's housing problem. A summary statement of Richmond's proposal is enclosed (see p. 1119, pt. 1), as is a copy of the bill.

Sincerely yours,

WILLIAM F. KNOWLAND,
THOMAS H. KUCHEL,

[S. 3282, 83d Cong., 2d sess.]

A BILL To expedite the disposal and removal of federally owned temporary housing in certain communities where such housing predominates

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 605 (a) of the Act entitled "An Act to expedite the provision of housing in connection with national defense, and for other purposes", approved October 14, 1940, as amended, is hereby amended by adding the following at the end thereof: "In any city in which, on March 1, 1953, there were more than twelve thousand temporary housing units held by the United States of America, or in any two contiguous cities in one of which there were on such date more than twelve thousand temporary housing units so held, the Administrator may acquire, by purchase or condemnation, a fee simple title to any lands in which the Administrator holds a leasehold interest, or other interest less than a fee simple, acquired by the Federal Government for national defense or war housing or for veterans' housing where (1) the Administrator finds that the acquisition by him of a fee simple title in the land will expedite the disposal or removal of temporary housing under his jurisdiction by facilitating the availability of improved sites for privately owned housing needed to replace such temporary housing, (2) the city or a local public agency has, in accordance with authority under State law, entered into a firm agreement to purchase the land so acquired at a price determined by the Administrator to be fair, but in no event less than the estimated cost to the Federal Government of acquiring the fee simple title (including an estimated amount to cover legal and overhead expenses of such acquisition) as determined by the Administrator, and (3) the city or local public agency finds the removal of such housing to be in the public interest satisfactory to the

Administrator that it has or will have funds available to make all agreed-upon payments to the Federal Government and to protect the Federal Government against any loss resulting from the acquisition of fee simple title, and (4) the city or local public agency has furnished assurances satisfactory to the Administrator that the land will be made available to private enterprise for development, in accordance with local zoning and other laws, for predominantly residential uses: *Provided*, That such acquisitions by the Administrator pursuant to this sentence shall be limited to not exceeding four hundred twenty-five acres of land in the general area in which approximately one thousand five hundred units of temporary housing held by the United States of America were unoccupied on said date."

Our first witness this morning will be Mr. LeGrand W. Perce, Deputy Assistant Commissioner of the Federal Housing Administration. Mr. Perce, will you be sworn, please?

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF LeGRAND W. PERCE, DEPUTY ASSISTANT COMMISSIONER, FEDERAL HOUSING ADMINISTRATION

Mr. PERCE. I do, sir.

The CHAIRMAN. Thank you. Be seated, please.

Do you pronounce your name "purse"?

Mr. PERCE. Yes, sir.

The CHAIRMAN. Mr. Perce, how long have you been with the FHA?

Mr. PERCE. I came with the FHA on December 20—

The CHAIRMAN. Pull the microphone a little closer.

Mr. PERCE. On December 20, 1937.

The CHAIRMAN. You have been with the FHA since December 1937?

Mr. PERCE. Yes, sir.

The CHAIRMAN. What have been your duties over there, please?

Mr. PERCE. I came to the FHA as an attorney, in the Rental Housing Division. I did not seek the job. The job sought me.

The CHAIRMAN. Which Division?

Mr. PERCE. Rental Housing.

The CHAIRMAN. In 1937?

Mr. PERCE. Yes, sir.

The CHAIRMAN. And where is your home town?

Mr. PERCE. Right now I am living in Washington.

The CHAIRMAN. Where did you come from?

Mr. PERCE. I came from New York.

The CHAIRMAN. You came from New York down here in 1937?

Mr. PERCE. I came in 1934, and then I went back to New York, and came back in 1937. I was with the late NRA.

The CHAIRMAN. And you have been with the Rental Housing Division ever since?

Mr. PERCE. Yes, in the Legal Division first, and then in the Administrative Division.

The CHAIRMAN. You have been Acting Commissioner?

Mr. PERCE. I have been assistant to the Assistant Commissioner, and then a Deputy Assistant Commissioner, since June 18, 1948.

The CHAIRMAN. Who has been your immediate superior?

Mr. PERCE. Mr. Clyde Powell.

The CHAIRMAN. Mr. Powell was your immediate superior?

Mr. PERCE. Yes, sir, when I entered into the administrative end of it. Prior to that time I had two superiors, Mr. Herbert S. Colton, who was chief counsel, and Mr. R. Winton Elliott, chief counsel.

The CHAIRMAN. Have you had anything whatsoever to do with title I?

Mr. PERCE. No, sir.

The CHAIRMAN. In other words, your experience has been entirely with rental housing, section 608?

Mr. PERCE. Sections 207, 608, and 608 pursuant to 601, and title VIII and title IX.

The CHAIRMAN. Rental housing?

Mr. PERCE. Yes, sir. They call it multifamily housing now.

The CHAIRMAN. Multifamily housing?

Mr. PERCE. Yes, sir.

The CHAIRMAN. Is that exactly the same thing as rental housing?

Mr. PERCE. The same thing.

The CHAIRMAN. Why did they change the name?

Mr. PERCE. That you would have to ask the powers above. I don't know.

The CHAIRMAN. But it is now called multifamily?

Mr. PERCE. Yes, sir.

The CHAIRMAN. But it is the same thing as rental housing?

Mr. PERCE. Well, I rather imagine they changed it to multifamily housing—maybe I am incorrect on this—when the policy position of the Assistant Commissioner for Cooperative Housing, when cooperative housing was put under Mr. Powell shortly—a little while ago.

The CHAIRMAN. When did they put cooperative housing under Mr. Powell?

Mr. PERCE. About a year ago, about the time that the Congress took the appropriation for the Assistant Commissioner—

The CHAIRMAN. Do you yourself, or did Mr. Powell, approve all appraisals made under section 608?

Mr. PERCE. No, sir, we didn't have anything to do with it. The original appraisals we had nothing to do with.

The CHAIRMAN. Did you or Mr. Powell, or both of you, approve the amount of the mortgage on each and every section 608 project?

Mr. PERCE. We had nothing to do with it, sir.

The CHAIRMAN. Then, what are your duties over there?

Mr. PERCE. The duties, as far as I can make out, the administrative duties were to set the policies in accordance with the findings of the Commissioner, in what is known as the executive board. I never had a policymaking position. The policies are made by the Commissioner and the Assistant Commissioner.

The CHAIRMAN. What do you do? Tell us briefly.

Mr. PERCE. Try to carry out the policies as written.

The CHAIRMAN. Well, isn't one of the policies under section 608 for the appraisers to appraise and arrive at an amount at which they would insure the mortgage?

Mr. PERCE. Yes, sir, in the underwriting section.

The CHAIRMAN. You say you did not approve any of those?

Mr. PERCE. We did not know what those appraisals were until they got the commitment out. Then we were notified.

The CHAIRMAN. Was your job and Mr. Powell's job to issue instructions to the appraisers on section 608 projects?

Mr. PERCE. We issued administrative instructions and instructions to the appraisers as to how the appraisals were to be made, to the assistant commissioner for underwriting.

The CHAIRMAN. What we are trying to find out is—let's take a project. Let's call a project X. A gentleman walks in and says he wants to build a section 608 project. Now, tell us how did you proceed? How would he proceed, and how did FHA proceed?

Mr. PERCE. He would proceed by entering usually an insurance office, whatever it might be, New York or Chicago or whatever it was, and have preliminary discussions about the matter, telling them what he had in mind, telling them about the land. I think you could get a much better description if you would discuss this with the Underwriting Division. But I will give my interpretation of it.

The CHAIRMAN. You and Mr. Powell were the top administrative officials under section 608, is that correct?

Mr. PERCE. As far as the administrative section is concerned, but not the underwriting.

The CHAIRMAN. You had nothing to do with the underwriting?

Mr. PERCE. I had nothing to do with the underwriting—neither of us had, as far as I know.

The CHAIRMAN. You had nothing to do with the appraisals?

Mr. PERCE. No, sir.

The CHAIRMAN. You had nothing to do with the approval to insure mortgage for X amount?

Mr. PERCE. No, sir.

The CHAIRMAN. Then, what did you have to do?

Mr. PERCE. We had to instruct them—

The CHAIRMAN. You had to what?

Mr. PERCE. We had to set out administrative determinations with respect to what the policy was.

The CHAIRMAN. Who was the top man of these appraisers that you are talking about?

Mr. PERCE. Mr. Curt C. Mack.

The CHAIRMAN. Mr. Mack?

Mr. PERCE. Yes, sir, the Assistant Commissioner in Charge of Underwriting.

The CHAIRMAN. Is he still over there?

Mr. PERCE. No, sir, he resigned. I don't know how long ago. Not so very long ago.

The CHAIRMAN. You mean 2 or 3 weeks ago?

Mr. PERCE. No, I think 6 or 8 months ago. I don't remember exactly.

The CHAIRMAN. I wonder if we can get Mr. Mack over here this afternoon. Will you call Mr. Mack?

Mr. PERCE. Mr. Mack, I think, is in Baltimore.

The CHAIRMAN. He is not there anymore. Who took his place? Let's call the gentleman who took his place.

Mr. PERCE. That is Mr. Chappell.

The CHAIRMAN. Is Mr. Chappell here this morning?

Mr. CHAPPELL. Yes, sir.

The CHAIRMAN. You took Mr. Mack's place?

Mr. CHAPPELL. Yes, sir.

The CHAIRMAN. How long ago?

Mr. CHAPPELL. March 12, until last Monday, the 26th. We have a new director now, but I am the assistant director, and I will be here to testify if you need me.

The CHAIRMAN. How long have you been over there?

Mr. CHAPPELL. I have been with FHA since 1934.

The CHAIRMAN. You have been with FHA since 1934?

Mr. CHAPPELL. Yes.

The CHAIRMAN. Now, Mr. Perce, tell us again what you do. It isn't clear to me.

Mr. PERCE. Well, the Administrative Section—

The CHAIRMAN. What other duties are there in connection with section 608, other than arriving at the cost or the estimated cost, and agreeing to insure the mortgage? What are the other duties?

Mr. PERCE. We have the duty of releasing the mortgage, servicing the mortgage and servicing the projects, to see that they do not exceed the rental ceilings—

The CHAIRMAN. See that they do not exceed what?

Mr. PERCE. The rental ceilings. It is a form of rent control.

The CHAIRMAN. It has been testified here that in every section 608 project a separate corporation was organized.

Mr. PERCE. Yes. No, sir, that isn't quite true. In the beginning, they permitted individuals to be mortgagors, particularly if the mortgage was under \$200,000.

The CHAIRMAN. Did you and Mr. Powell have charge of seeing that under these section 608 projects they organized a separate corporation?

Mr. PERCE. That was part of the procedure, yes, sir.

The CHAIRMAN. I mean that was part of your responsibility?

Mr. PERCE. That was part of the responsibility of the closing attorney, to follow the instructions set by Mr. Powell.

The CHAIRMAN. Did the closing attorney work for you?

Mr. PERCE. When I was chief counsel of rental housing he worked under my direction. Not exactly for me, but under my direction.

The CHAIRMAN. Well, whose idea was it that a separate corporation should be organized to own each of these section 608 projects?

Mr. PERCE. I think that grew out of our experience in the earlier part of the program, when we had individual mortgagors, and we also had corporate mortgagors. It was found from experience that you could control a corporate mortgagor by owning preferred stock much easier than you could control the operations of an individual under a regulatory agreement. A regulatory agreement had practically the same provisions in it.

The CHAIRMAN. What control did you want to hold over them?

Mr. PERCE. First, we wanted to see that they kept the job of doing the repairs. Second, we wanted to see that they made no charges other than those approved by the Commissioner. Third, we wanted to see that they did not exceed the rent, because the act provided that we could control rents, to provide reasonable rents for the tenants and a reasonable return to the owner.

And we also had to police the job, service the job. And we also had questions of the reserve for replacement, which was set up in the charter provisions for replacing structural elements and such things as refrigerators and ranges when they wore out, and we wanted to see that they didn't dribble that away.

The CHAIRMAN. It has been alleged by the Internal Revenue Service that some several hundred section 608 project owners made a profit and so declared on their income-tax returns. Under the charter, under their charter as a separate corporation, which you approved, and in which you owned \$100 worth of preferred stock, you had the right to control that sort of thing.

Mr. PERCE. We did not control that——

The CHAIRMAN. Well, let me ask you this: You controlled these corporations, through holding \$100 worth of preferred stock, did you not?

Mr. PERCE. Yes, sir.

The CHAIRMAN. Did you have any instances, did you ever have a single instance in which you approved of that corporation paying out to its stockholders any amount of money?

Mr. PERCE. The dividends were not controlled under section 608.

The CHAIRMAN. Why?

Mr. PERCE. They were controlled in section 207. Section 207 was a little different.

The CHAIRMAN. Why weren't they controlled in section 608?

Mr. PERCE. Because that was the policy laid down, the provision which only permitted them to pay——

The CHAIRMAN. You certainly controlled capital distribution, did you not?

Mr. PERCE. I don't know that we did. I don't think the charter provides for that.

The CHAIRMAN. What did you control, then?

Mr. PERCE. We tried to control the rents.

The CHAIRMAN. You just controlled the rents?

Mr. PERCE. And the operations with respect to maintenance and reserve for replacement.

The CHAIRMAN. Let me have one of the charters here.

Senator PAYNE. Mr. Chairman, I would like to ask Mr. Perce a question: You say you controlled the rents?

Mr. PERCE. We tried to; yes.

Senator PAYNE. Just how did you establish what the rent was that should be charged?

Mr. PERCE. The rent was originally established by the Underwriting Division, when they processed the case.

Senator PAYNE. And on what basis was that established?

Mr. PERCE. I think the Underwriting Division better give you that, because the rentals are generally established by the rents of the neighborhood, and then it was presumed to be established on 6½ percent of the replacement cost, after paying all operating costs, plus taxes——

Senator PAYNE. But that portion of it was not reviewed by you or anyone under you?

Mr. PERCE. No, sir; not in the beginning. It was subsequently. If they asked for an increase in rent.

Senator PAYNE. Let's say there was an increase in rent requested——

Mr. PERCE. That came through us.

Senator PAYNE. How far back did you go to establish whether or not the base upon which that rent was established was fair, and if such suggested increase was based upon certain facts?

Mr. PERCE. To the original rent established by the replacement cost, estimate of replacement cost, established by the Underwriting Division.

Senator PAYNE. What do you mean by estimate of replacement cost?

Mr. PEARCE. All of it was based upon estimate of replacement costs.

Senator PAYNE. In no instance did any member of the Administration endeavor to find out what the actual cost of those——

Mr. PERCE. Not that I know of.

Senator PAYNE. Not that you know of?

Mr. PERCE. No.

Senator PAYNE. Well, under the so-called rent-control law, affecting everybody else over this country, before anybody could ask for a suggested change in their rent structure, they were required to furnish absolute costs that went into the suggested increase in rent, were they not?

Mr. PERCE. I really don't know, sir. I am not familiar with that.

Senator PAYNE. Wouldn't you think it was a rather loose proposition of establishing a rent that could be charged and granting an increase from time to time, unless some factual data concerning costs came into the picture, instead of somebody saying, "Well, I estimate this is the figure upon which this is going to be computed?"

Mr. PERCE. That is a situation. When we set up an analysis of the case, there are five criteria whereby that mortgage could be determined. One is 90 percent of cost, not to exceed the cost of physical improvements to the property——

Senator PAYNE. You say 90 percent of the cost?

Mr. PERCE. Estimated replacement cost of the project, as defined in the act.

Senator PAYNE. I thought you just said 90 percent of the cost.

Mr. PERCE. Estimated cost.

Senator PAYNE. And nobody ever checked to make sure whether that estimated cost tied into actual cost or not?

Mr. PERCE. No, sir, not that I know of.

Senator PAYNE. Wouldn't you consider it good business practice and sound administrative procedure to see that you were talking about a certain specific figure, as determined by the construction cost itself?

Mr. PERCE. If the act provides for that, I would be very glad——

Senator DOUGLAS. Does not the act provide for it?

Mr. PERCE. I don't know that it does.

Senator DOUGLAS. Let us get the section.

Mr. PERCE. Maybe it does and maybe it doesn't.

Senator DOUGLAS. Well, you have been administering the act. Subsection (b) of section 608 provides for actual cost, I think.

Mr. PERCE. I don't think so.

The CHAIRMAN. It provides for current cost, and then it provides for replacement cost.

Mr. PERCE. The Commissioner's estimate of the necessary current cost.

Senator DOUGLAS. Mr. Chairman, forgive me for interrupting, but section 608——

The CHAIRMAN. What page?

Senator DOUGLAS. In the section that I have, page 10, subparagraph (b) (iii), it says:

The mortgage shall involve the principal obligation in amount (a) not to exceed \$5 million, and (b) not to exceed 90 percent of the amount which the Commissioner estimates will be the necessary current cost of the completed project.

Mr. PERCE. Yes, sir, that is the Commissioner's estimate. It is not, as far as I can make out, the actual cost.

Senator DOUGLAS. You made no effort to check whether the actual cost could be determined from the Commissioner's estimate?

Mr. PERCE. Not so far as I know.

Senator PAYNE. Mr. Perce, just one further question.

Mr. PERCE. Yes, sir.

Senator PAYNE. You are talking about the rents that you established, and I am sure that you folks in the FHA, even though you weren't charged with the administration of the Rent Control Act, as such, that to be consistent you would have to follow a pattern under which it would be consistent with what was taking place country-wide, insofar as controlling rents. Is that right?

Mr. PERCE. Yes.

Senator PAYNE. Let me ask you whether or not you figured, under the basis on which you operated, that FHA in any instance violated the Rent Control Law, as such?

Mr. PERCE. In the early part of the section 608 program, the rent control of section 608 projects, as well as existing construction—I haven't got the date right now, but later they took the rent control off of new construction. Our original charter provided that so long as the rents were controlled by another governmental agency, the FHA would not control the rents in any way, but that when the rent control ceased to exist, the FHA would then set the ceiling rents in existence at that time and carry it on from there.

When they changed the law so that rent control did not pertain to new construction, why then FHA established it right from the beginning, right from the beginning of the process. The Administrative Section, in Washington, set the rents, as set up by the project analysis of the rents in the beginning, and carried on from there. What relation they had to actual cost, I haven't the slightest idea. The rents were not always based upon 6½ percent of replacement cost. Sometimes they were based upon the rent in the neighborhood, so some did not get 6½ percent.

Senator PAYNE. But you don't recall any instance of where FHA violated the rent-control law, as such?

Mr. PERCE. No.

The CHAIRMAN. Mr. Perce, there were approximately 7,000 section 608 projects, is that right?

Mr. PERCE. That is right, sir.

The CHAIRMAN. Approximately 7,000?

Mr. PERCE. That is right, as far as I know.

The CHAIRMAN. It has been testified that in practically every instance, except at the beginning where there were some projects less than \$200,000, that you required them to organize a separate corporation of which you, the FHA, took \$100 worth of preferred stock.

Mr. PERCE. Yes, sir.

The CHAIRMAN. Now, the Internal Revenue Service maintained that X number of these 7,000 projects—I don't know what the number is, but let's say it is a thousand—

Mr. PERCE. 1,100.

The CHAIRMAN. It doesn't make any difference. But they maintained that X number of them filed income-tax returns in which they maintained that they made a profit on the difference between the actual cost and the amount of the mortgage.

Mr. PERCE. Yes, sir.

The CHAIRMAN. Now, my question is: In each of those instances where they maintained that and filed a return, did you and Mr. Powell approve those dividends?

Mr. PERCE. We didn't have anything to do with approving dividends.

The CHAIRMAN. Did you approve them taking out of this corporation in which you owned \$100 worth of preferred stock, did you approve of them taking out \$100,000?

Mr. PERCE. I don't know that we approved or disapproved.

The CHAIRMAN. Or a million dollars.

Mr. PERCE. I don't know that we approved or disapproved.

The CHAIRMAN. Why didn't you?

Mr. PERCE. I don't think it was in our province.

The CHAIRMAN. It certainly was.

Senator PAYNE. Mr. Chairman, if I may ask a question—

The CHAIRMAN. Senator Payne.

Senator PAYNE. I have before me, Mr. Perce, S. 1770, introduced in the 80th Congress by Mr. Tobey, and others who are present members of this committee, who acted as cosponsors, including the present chairman, Mr. Capehart, Senator Bricker, Senator Maybank, Senator Fulbright, Senator Robertson, and Senator Sparkman. And I will read it:

Section 2, title VI of the National Housing Act, as amended, shall be employed to assist in maintaining a high volume of new residential construction, without supporting unnecessary or artificial costs. In estimating necessary current costs for the purposes of said title, the Federal Housing Commissioner shall use every feasible means to assure that such estimates will approximate as close as possible the actual costs of efficient building operations.

That was enacted into law as a part of the present law and, to the best of my knowledge from the information available to me, has never been repealed. I would like to ask you now, in view of that, what did the FHA do to see that that portion of the law was carried out and to see to it that no unnecessary or artificial costs, as came into the picture under estimates, were reflected in determining what the actual costs of efficient building operations were?

Mr. PERCE. Sir, that was never in my jurisdiction. As I say, I am not an underwriter. It was carried out entirely by the Underwriting Division, and I think you will have to ask them what they did to find out whether the estimates were approximate to the actual costs.

You see, we got into the picture, as far as costs were concerned, the Administrative Section—Mr. Powell and myself didn't know anything about a case until after the commitment had been issued.

The CHAIRMAN. Say that again, please. Don't talk quite so close to the microphone.

Mr. PERCE. Neither Mr. Powell or myself knew anything about the project until after the commitment had been issued, a firm commitment to insure the mortgage for so many dollars.

The CHAIRMAN. Who had jurisdiction or responsibility to see that these separate corporations were organized and the \$100 worth of preferred stock—

Mr. PERCE. That was done by the Legal Division.

The CHAIRMAN. That was done by who?

Mr. PERCE. The Legal Division.

The CHAIRMAN. Of your department?

Mr. PERCE. The Rental Housing Division, and the field attorneys.

The CHAIRMAN. That would be your department?

Mr. PERCE. It would be when I was in the Legal Division; yes, sir. The closing attorneys were only authorized to approve a charter in accordance with our charter.

The CHAIRMAN. I may be wrong about this, but it seems to me that you and Mr. Powell didn't have anything to do.

Mr. PERCE. We had much to do. Too much to do.

The CHAIRMAN. What did you have to do. You had nothing to do with organizing the corporation; you had nothing to do with the appraisal, you say.

Mr. PERCE. That is right.

The CHAIRMAN. You had nothing to do with organizing these separate corporations.

Mr. PERCE. No; that was done by the mortgagor and their attorneys.

The CHAIRMAN. And you say you never knew anything about a case until it was approved for mortgage purposes?

Mr. PERCE. We never knew anything about it until after the commitment—

The CHAIRMAN. Everybody handled the thing, and came in and handed it to you, and then what did you do from that point on?

Mr. PERCE. I will say one thing, that we did have something from the beginning, before the commitment was issued and that was the prevailing wage determination by the Secretary of Labor. I forgot about that.

The CHAIRMAN. You mean the prevailing wages when they were constructing the building?

Mr. PERCE. That was before they started the job. The first thing that happened when an application was filed.

The CHAIRMAN. Let me ask you this: Under the law you were supposed to set the rents?

Mr. PERCE. Yes.

The CHAIRMAN. Did you and Mr. Powell set the rents?

Mr. PERCE. No.

The CHAIRMAN. Who did?

Mr. PERCE. The insuring office. I wouldn't know what the rents were in Chicago, San Francisco, Oklahoma, and so forth.

The CHAIRMAN. You and Mr. Powell had nothing to do with that?

Mr. PERCE. No. That was done in what was called the project analysis.

The CHAIRMAN. What you had to do with was what?

Mr. PERCE. We had to service the mortgage and—

The CHAIRMAN. What do you mean by service the mortgage?

Mr. PERCE. Seeing if it went into default, and it did go into default—

The CHAIRMAN. The banks bought the mortgage and they had to service it, didn't they?

Mr. PERCE. Partially. We had to service it, too. The banks couldn't alter the mortgage without our consent.

The CHAIRMAN. Order the mortgage?

Mr. PERCE. Alter, a-l-t-e-r.

The CHAIRMAN. Were there a lot of alterations?

Mr. PERCE. A great deal.

The CHAIRMAN. A great deal of alterations?

Mr. PERCE. Yes.

The CHAIRMAN. Why?

Mr. PERCE. When the project got into difficulty and couldn't meet the payments, and the mortgagee requested us to permit him to waive amortization for a while.

The CHAIRMAN. Did you have much of that?

Mr. PERCE. A great deal of it. A great deal of it, particularly after the war started and the costs began to go up.

The CHAIRMAN. And they would try to get you to increase it?

Mr. PERCE. We did increase the mortgage, a great many mortgages, up to the final endorsement.

The CHAIRMAN. You say you did increase the mortgage?

Mr. PERCE. We increased a great many mortgages; yes.

The CHAIRMAN. You mean the amount?

Mr. PERCE. Yes, sir.

The CHAIRMAN. In other words, you would increase the amount of the mortgage that the original appraised had set it at?

Mr. PERCE. Yes.

The CHAIRMAN. Oh, you did?

Mr. PERCE. Yes, quite a few. The mortgagee would request us—well, quite a number of things happened. For one thing, during the course of construction, some mortgagee and mortgagor would apply for a change order for a better one, or a different kind of material. In other words, if you couldn't get wrought iron pipe during the war, because of the scarcity. Now, that cost an additional amount of money, and some of the increases were greater than some of the decreases. They would come in sometimes and make an application to our insuring office, and the insuring office would process it, just like they processed everything else, and it would be sent to Mr. Powell, and Mr. Powell would send it to underwriting to check the processing and see if it was correct. And if it was within the limitations of the act, the mortgage would be increased.

The CHAIRMAN. Who had the last word as to whether the amount of the mortgage would or would not be increased?

Mr. PERCE. All the processing would be done by Mr. Powell.

The CHAIRMAN. In other words, if I had a project in Indianapolis, let's say, and it had been originally approved for a million dollars, it would mean that when the project was completed I could go to a bank and sell my mortgage for a million dollars?

Mr. PERCE. Not after it was completed. During the course of construction.

The CHAIRMAN. And during that course of construction, I decided that I wanted to get it increased \$100,000.

Mr. PERCE. You had to have a basis for that.

The CHAIRMAN. Yes, but I decided I wanted it increased, that it should be increased. Then I would do what? Come to Mr. Powell?

Mr. PERCE. You would go to the Indianapolis office and take it up with the chief underwriter, who would get the facts. He would then examine the facts and check those facts. And the instructions here say that they have to be actual, not just estimates, guesswork.

And, if the Indianapolis office agreed that the cost had gone up beyond the control of the mortgagor corporation and had worked a real hardship, if he didn't get the increase, which is part of section 515 of the act, the insuring office, completing the process, would send it in to Washington and it would come to Mr. Powell's office. He would then generally turn it over to me, and I would send it up to Underwriting, to Mr. Curt C. Mack. They would then examine the processing and see if it was all in order and that it didn't violate the provisions of the act, and they would send us a memorandum stating that they thoroughly agreed with the processing, that the increase was in order, to avoid a hardship and what not.

They would then send a memorandum to the Legal Division, and they would prepare a formal commitment, which the District Director in Indianapolis would issue, increasing the amount of the mortgage.

The CHAIRMAN. Did Mr. Powell have the last say on this?

Mr. PERCE. He had the last say, subject to the review of the case.

The CHAIRMAN. He could overrule the underwriters?

Mr. PERCE. I don't think he overruled the underwriters.

The CHAIRMAN. Well, did he have the power to overrule them?

Mr. PERCE. That I will have to reserve. I will have to look back and find out. (See appendix, p. 1986.)

The CHAIRMAN. How many cases would you say there were where the amount of the mortgage was increased?

Mr. PERCE. I would hate to say. Hundreds of them.

The CHAIRMAN. Hundreds of them?

Mr. PERCE. Hundreds of them, yes, sir. And if those mortgages had not been increased, there would have been a great many people who would have lost, instead of gained.

Senator DOUGLAS. May I interject a question here?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. When the actual costs exceeded the estimates, therefore, the mortgage was increased?

Mr. PERCE. Sometimes, yes, sir, if it met with the other obligations. Let me explain, first, these 5 limitations—

Senator DOUGLAS. I am just asking for a simple answer to that. In the vast majority of cases, when the actual cost exceeded the estimate, the mortgage was increased, yes or no?

Mr. PERCE. If it could be within the limitations of the Act.

Senator DOUGLAS. If you checked up when costs exceeded the estimates, why did you not write down the amount of the mortgage, as well as writing up the amount of the mortgage? Excuse me, Mr. Chairman.

The CHAIRMAN. That was the question I was going to ask you. Why, if you increased these mortgages when you found that they should be increased—and I presume you felt they should be or you couldn't have done it—why then, when the costs ran much less than our estimate, didn't you reduce it?

Mr. PERCE. So far as I know, I don't know whether the costs ran less or not. That would be something for the insuring office to find out. We weren't processing that.

The CHAIRMAN. How did you know they ran more, then?

Mr. PERCE. That was based entirely upon the processing in the insuring office. We had to take the word of the insuring office.

Now, there is one way in which the mortgage might have been reduced, and that is in balancing out the change order, the construction fee, showing they had saved money on the construction mortgage was supposed to be reduced to the amount of the order.

Senator PAYNE. Mr. Chairman.

The CHAIRMAN. Senator Payne.

Senator PAYNE. Mr. Perce, you have given us quite a deal here on the fact that you were administrative officer, that you did these things and put them into effect administratively.

Mr. PERCE. Yes, sir.

Senator PAYNE. Would you just trace this for me: The Commission passes a bill, signed into law by the President. Who directs compliance with the provisions of that law, so far as the Federal Housing Administration is concerned?

Mr. PERCE. The Federal Housing Commissioner.

Senator PAYNE. The Federal Housing Commissioner.

Mr. PERCE. There were a group of assistant commissioners: commissioner for underwriting, commissioner for title L, and so on. There were also what they called zone commissioners, in charge of the zones, and they were the ones that set the policy there and the directors follow up in the form of letters.

Senator PAYNE. Now, going back to the law which I just mentioned, Public Law 394, put into effect December 27, 1947, signed in 1947, just what are the mechanics that took place in putting the provisions of that law into effect and how were they administered? (See p. 1745.)

Mr. PERCE. I don't like to answer the question categorically, but I think maybe you could get an answer from the Underwriting Division, because that would be their function.

Senator PAYNE. Let me ask this: Do the records of FHA show that the Commissioner delegated the responsibility of seeing that this provision was carried out?

Mr. PERCE. I think so. I don't know. I will have to check.

Senator PAYNE. Somebody's memory ought to be good enough.

Mr. PERCE. That was not in my department. The cost figures and figures of cost, I don't know anything about them. I am not sure I was not supposed to—

Senator PAYNE. For your division was in charge of this part of Federal Housing, wasn't it?

Mr. PERCE. Not the cost information, no, sir. We had not to do with the cost estimates.

Senator PAYNE. And you had nothing to do with the review of the cost estimates?

Mr. PERCE. No, sir.

The CHAIRMAN. But you had something to do with the review of the mortgage of the building asked you to do, is that right?

Mr. PERCE. If the recommendations were followed, under the law as set by the Commission we had the final say, so to speak, on the mortgage.

The CHAIRMAN. It seems rather strange you had nothing to do with the cost estimates. But if the fellow wanted you to do it, you would.

Senator PERCE. Is it fair to say your duties began when the law was passed?

PERCE. To a certain extent. Sometimes our duties were in the construction period. That is when they had these requests for revaluations.

senator BUSH. In other words, the revising of the mortgage might take place during construction?

PERCE. It could have.

senator BUSH. That came under your authority?

PERCE. And Mr. Powell's authority; yes, sir. You couldn't revalue a mortgage actually until the project was completed and finally insured for insurance. The mortgages were originally endorsed when any work was done.

senator BUSH. In your department, or Mr. Powell's, let's say.

PERCE. Yes, sir.

senator BUSH. His authority on the whole operation, before the project came into operation, so to speak, had to do then with the right authority to change the value of the mortgage after an agreement had been reached? That was his only authority in connection with revaluing, until it became a completed project?

PERCE. We were also charged with the enforcement of the prevailing wages and labor.

senator BUSH. Those were the only two things that your department—

PERCE. I think I am correct on that. I can't answer that specifically. I will have to check that.

senator BUSH. But as far as your recollection is concerned it was those two areas that that authority was exercised by Mr. Powell's organization?

PERCE. As far as the cost estimation and the cost of the job, the construction, they were entirely under the operations of Undersecretary. They had the inspections, they had the architects and they had the cost estimates.

senator BUSH. But the revaluation, if any—

PERCE. The only person that had to do with the modification of a mortgage was Mr. Powell or the people above him.

senator BUSH. And that could take place either before the project was completed or after?

PERCE. Not after the project was completed and finally insured for insurance.

senator BUSH. Let me ask you this: After a project had been in operation for 2 or 3 years, didn't you ever make adjustments in the mortgage then?

PERCE. Never increased the mortgage; no, sir.

senator BUSH. You never did?

PERCE. No. The original endorsement is done before any work is advanced by the mortgagee. Sometimes it is less and sometimes more, than the original commitment.

After that second endorsement takes place, we do not change the mortgage. We cannot increase it. That is what section 515 of the Housing Act says. I don't know whether I have a copy of that or not.

senator BUSH. I am not particularly interested in that, Mr. Perce. You have given me what I wanted to know; namely, what your mortgage was before that building went into operation. There were

two areas of authority: (1) revision of the mortgage, and (2) the policing of the labor.

Mr. PERCE. Then, of course, a lot of times there were disputes between the contracting officer and the insuring office, that came down to the Washington office for interpretation. And they sat in on that, and mostly that was determined by our field offices.

Senator BUSH. But the change in the value of the mortgage which might have taken place between the time the project began to be built and the time it was completed, nobody could authorize that final change in the mortgage except Mr. Powell?

Mr. PERCE. Except with respect to these change orders in the field office. They processed these change orders. If a man wanted to cut it down, and one wanted to increase it a little bit, and if those balanced out, then the instructions to the field offices were to endorse it for the lesser amount, not the greater amount.

Senator BUSH. If there was an increase, it had to be approved by Mr. Powell?

Mr. PERCE. Yes, sir.

Senator PAYNE. Mr. Chairman, at the appropriate time, if it would be possible, I would like to have Mr. Greene, who was former Commissioner, answer a question.

The CHAIRMAN. I don't believe Mr. Greene is here today.

Senator BENNETT. Yes, he is, sir.

The CHAIRMAN. Do you want him to answer it now?

Senator PAYNE. Whenever it is convenient.

The CHAIRMAN. Unless you gentlemen have any questions of this present witness, he didn't have much to do over there.

Mr. PERCE. My main feeling of the FHA was frustration, for the simple reason that I never had enough help to do a good job, never. We are supposed to get annual reports and annual statements, and I have nobody to examine them.

The CHAIRMAN. Did you get an annual report from each of these 8,000 section 608's?

Mr. PERCE. Not quite 8,000. Only those in which we have charter control.

The CHAIRMAN. How many did you have?

Mr. PERCE. I imagine around 4,500.

The CHAIRMAN. Do you know exactly?

Mr. PERCE. No.

The CHAIRMAN. Why don't you?

Mr. PERCE. They keep changing all the time. We had been getting new ones every day.

The CHAIRMAN. You can't get new section 608's now?

Mr. PERCE. No; new title VIII and title IX.

The CHAIRMAN. I mean section 608.

Mr. PERCE. I imagine around 4,000. I haven't checked; 3,500 or 4,000. I can find that figure exactly if you really wish to know. I don't have it at my fingertips.

The CHAIRMAN. Under your rules, the section 608 project owner supposedly had to send in his annual financial statement to you?

Mr. PERCE. It was supposed to be within 60 days after the end of the fiscal year.

The CHAIRMAN. What did you do with them after they came in?

Mr. PERCE. Originally the reports which were supposed to be sent to the general comptroller; he was supposed to audit those reports.

The CHAIRMAN. You mean the general comptroller of the FHA?

Mr. PERCE. Of FHA. He was supposed to audit those reports. And then, if he found anything out of order, he would notify Mr. Powell.

The early section 608's were not controlled by us, because they were under rent control, but the later ones, after—I have forgotten the date—they had to send in reports, after it was completed. It sometimes took 18 months, and then they had to operate for a year before we could get a report. So I think it was sometime about the latter part of 1948, or early 1948 when they began to come in, and they began to come in in great numbers—1,000, 2,000, and so forth. Mr. Thompson at that time had the Projects Audit Section, which was supposed to audit these projects. He found himself swamped, absolutely swamped. He took the matter up with Mr. Powell—I was here at the time—and asked for 31 more auditors, because with 1,000 accounts it takes a long time to audit. And there was no money.

So, by a memorandum, I believe from the Commissioner to Mr. Thompson, he was relieved of the duty of auditing these reports. So he sent the reports to us, and as I had only 5 people to service 7,000 reports, they were put in the file. We weren't interested in operating costs particularly. They were not audited by us, because we had nobody to audit them. I had 1 girl and 1 man to figure operating costs, and I had 5 men servicing 7,000 mortgages. So that is why I feel frustrated. If each 1 of my men took no vacation or no annual leave, and put in a full day, he could spend 20 minutes per year per project, which is not good service.

That is the truth of the matter. I cannot do a good job that way, and we have always gone over our heads.

Senator DOUGLAS. Mr. Chairman?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Chairman, may I ask the witness if he, or if the FHA, asked for additional appropriations to provide for this?

Mr. PERCE. We did, memorandum after memorandum, requesting more money.

Senator DOUGLAS. Was the Congress requested to appropriate money?

Mr. PERCE. The budget was usually set, I believe, by the Budget Bureau.

Senator DOUGLAS. Did you request the Budget Bureau to grant—

Mr. PERCE. You will have to ask the top man. I think they did, yes. I think they did ask for more money all the time.

Senator DOUGLAS. Didn't the Budget Bureau grant it?

Mr. PERCE. Not as far as I know. Our budget, as far as I know, has always been too tight.

Senator DOUGLAS. You had no surplus employees that you could transfer to this work?

Mr. PERCE. No, sir.

Senator DOUGLAS. What was the total capital investment in these some 7,000 section 608 projects?

Mr. PERCE. Well, I suppose \$4 billion.

Senator DOUGLAS. \$4 billion?

Mr. PERCE. Yes.

Senator DOUGLAS. And yet you didn't audit——

Mr. PERCE. No, sir. There was no possible help to do it.

Incidentally this is not entirely connected with me, but Mr. Powell and myself were informed by the vice president of one of the biggest life insurance companies in the United States that they had \$24 million in mortgages on small homes in rental housing, and they had 175 in the service department. I have 7.

The CHAIRMAN. Just yesterday I think they voted \$50,000 for Mr. Cole to make this FHA investigation.

Mr. PERCE. Yes, sir. It will take that and more.

The CHAIRMAN. I think there is about \$20 billion involved in contingent liability on the part of the Government.

Mr. PERCE. Yes, sir.

The CHAIRMAN. I suppose in a half a dozen days we will possibly give away \$3 billion, \$4 billion, \$5 billion, or \$6 billion to some foreign country.

Mr. PERCE. Yes.

The CHAIRMAN. Yet we appropriate \$50,000 to investigate a contingent liability of some \$20 billion.

Mr. PERCE. It might have been if the FHA had more money they might not need to be investigated now. I don't know.

The CHAIRMAN. I don't know of you or any FHA official ever calling to this committee's attention the fact that you weren't able to——

Mr. PERCE. That I can't say, sir.

The CHAIRMAN. You were not the head man over there?

Mr. PERCE. I had nothing to do with budgetary problems.

The CHAIRMAN. I have no recollection of anybody calling the attention of this committee to the fact that they were not able to perform their duties because they didn't have such help.

Mr. PERCE. I think that has been the problem with FHA since I have been there, as far as I am concerned.

The CHAIRMAN. I would like to get back a minute to the 4,000——

Senator DOUGLAS. Mr. Chairman?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. In connection with this point that you made, that you did not have money to deal with this, I would like to invite your attention to title I, section 1, page 2, of the abstract there, which gives blanket authority to FHA to use 35 percent of the income which it receives from premiums and fees for administrative purposes, including inspection, and so forth. So that the specific appropriation was not needed, as I see it, for this purpose, and you could have used part of your income. That was specifically granted by Congress——

The CHAIRMAN. If you will yield a moment, let me say this: We wrote that into the bill, this committee, the provision allowing 35 percent of their income for that purpose, which would have been ample and in all fairness to the witness and everybody else, it was later kicked out by the Appropriations Committee.

Mr. PERCE. And I think also, Senator, you will find that that 35 percent was confined to technical, not administrative. That was only allowed to operate in the field and not in the Washington office.

The CHAIRMAN. It was thrown out by the Appropriations Committee later.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. At the end of yesterday's hearings we put into the record a statement made by Mr. Greene before the House Independent Offices Appropriations Committee, in 1954, which contains the applicable figures to the operation and the relation of the insurance income to the operating expenses. Mr. Greene was requesting a more liberal interpretation or a more liberal allowance for services of the agency.

This information is already in the record for our consideration later. (See p. 1692.)

Mr. PERCE. In our records there is appeal after appeal after appeal every year for more money, but people don't seem to understand every time Congress passes a section of the act—we started out with section 207, and we got section 608, and we got section 608 pursuant to section 601, title VIII, title IX, and every time a project was built the service department had more work, and no more people to work with.

In 1938, when we had 375 units, I believe the service department of Rental Housing had 17 employees to do the work, and I had 5, and now at the present time, 7. That is why I say I feel frustrated.

Senator DOUGLAS. Mr. Chairman?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. I want to be fair to the witness and to the FHA. My comments about the provisions in the law were correct, but I am informed that this provision in the law was not in effect when section 608 was operating. And, furthermore, that this provision was severely crippled by the Appropriations Committee, in addition. And, furthermore, that the employees in FHA had been steadily cut down, even though the workload had been increasing.

I have a chart before me, showing there were 1,050 employees in FHA in 1950. That was reduced to 895 in 1952, and to 810 in 1953. I think it is true probably that they have been crippled in the amounts which we have given them for administrative purposes.

Mr. PERCE. That is true.

Senator DOUGLAS. I did raise this point before, and I think it is proper for me to make a correction now, in the interests of fairness.

Mr. PERCE. I am glad you did that, sir. Somebody might think I am trying to find fault. I tried to do a good job, and I am perfectly willing to say I haven't been able to do a good job because I haven't got the tools to work with. If you intend to keep on this supervision, please give us the help.

The CHAIRMAN. I have just sent for the records of this so-called Gross case in New York, which is in the courts in Baltimore. Do you remember the so-called Gross case?

Mr. PERCE. I have heard of it; yes, sir.

The CHAIRMAN. Did the FHA hold \$100 worth of preferred stock of their respective corporations?

Mr. PERCE. I think so, in each one of them.

The CHAIRMAN. You do think so?

Mr. PERCE. I think so.

The CHAIRMAN. Did they get your permission to pay out the amount of dividends that they did?

Mr. PERCE. No, sir. As far as I know, when they paid it out, I didn't even know they had it.

The CHAIRMAN. You didn't even know they had it?

Mr. PERCE. I don't think so.

The CHAIRMAN. You never looked at their statement?

Mr. PERCE. Their statements came in a year after the job was finished. I think it was all paid out long before that. The Internal Revenue Service looked at their statements, I know.

The CHAIRMAN. What did you say?

Mr. PERCE. I say I know the Internal Revenue Service asked to look at their statements. But their statements came in a long time after the job was finished, a year after it was finished.

The CHAIRMAN. It seems to me you are taking this matter just a little lightly now.

Mr. PERCE. No, sir; I am not. It is serious to me.

The CHAIRMAN. I would think it would be serious to you.

Mr. PERCE. It is.

The CHAIRMAN. Because you have testified you held \$100 worth of preferred stock in that corporation.

Mr. PERCE. Yes, sir.

The CHAIRMAN. And under the charter they cannot pay out dividends without your approval.

Mr. PERCE. Oh, no. No; I don't think so. Read the first part of the charter. They can't pay out dividends without our approval unless they have first established a reserve for replacement—

The CHAIRMAN. It says, "Dividends shall not be declared or paid except out of the net earnings of the corporation."

Mr. PERCE. Yes, sir.

The CHAIRMAN. Well, the difference between the mortgage and the cost of the property, upon which they are maintaining them, is a profit, was not net earnings.

Mr. PERCE. I am not an accountant, but by the time they paid out, I am sure—

The CHAIRMAN. Let's put it this way: I am trying to get the record here. We placed it in the record, I think, the other day. I want to show you the exact amount of money that they invested in the corporation originally, the amount of the mortgage, the cost of the projects, and then I think it was about \$4.5 million that they took out with some twenty-odd corporations. I think, if my memory is correct, that they put \$7,500 in each corporation.

You say you did not know they took \$4.5 million out of the corporations when you were holding \$100 worth of preferred stock?

Mr. PERCE. I personally didn't at that time, I am sure.

The CHAIRMAN. Would your duties require that you know this?

Mr. PERCE. If we could examine the annual statements, yes, we might have discovered it, after the matter had happened. What we would have done then, I don't know. We would find out what the rights were.

The CHAIRMAN. What I am trying to find out is, did these corporations violate their charter provisions and violate the agreement that they had with you—meaning the FHA—when you took \$100 worth of preferred stock? Did they come down here and consult with you and say, "We want to declare a dividend"?

Mr. PERCE. No, sir.

The CHAIRMAN. Or, "Wait a minute, it is a little late."

Mr. PERCE. No, sir.

The CHAIRMAN. Did they do it at any time?

Mr. PERCE. Not that I know of.

The CHAIRMAN. Not a single one of them?

Mr. PERCE. Not that I know of.

The CHAIRMAN. Then, if the Internal Revenue Service is correct, that there are 1,149 of them that got windfall profits. Meaning the difference between the actual cost and the amount of the mortgage, to our knowledge none of them ever consulted with you—meaning FHA—as to whether they should or should not declare dividends?

Mr. PERCE. I don't think so, no, sir; not according to the charter.

The CHAIRMAN. For example, here, you are familiar with the George I. and Anna Gross case, are you not?

Mr. PERCE. No, I am not familiar with the case. I have heard of it.

The CHAIRMAN. You are familiar with the fact that they had—

Mr. PERCE. They had 11 corporations.

The CHAIRMAN. They had 11 corporations?

Mr. PERCE. Yes, sir.

The CHAIRMAN. And are you familiar with the fact that in one of those corporations they took out \$800,000?

Mr. PERCE. I personally am not; no, sir. I don't think anybody else is.

The CHAIRMAN. Do you think that anyone in FHA knew they took that out at that time?

Mr. PERCE. Do you know when they took it out? I am sure I don't. They couldn't have taken it out before we got the annual report. That could be the only way we could find out about it. And, as I say, we did not examine the annual reports because we did not get the money.

The CHAIRMAN. I hope the members of the committee and others realize what I am trying to find out.

Mr. PERCE. Yes, sir.

The CHAIRMAN. I am trying to find out, because you are the second man in charge of this Department, Mr. Powell being the top man, who refuses to testify, I am trying to find out if—and I say "if" because I don't know—if the Internal Revenue Service is correct, that 1,149 out of these 8,000 projects declared dividends, took out as profits the difference between the cost of their project and the amount of their mortgage.

What I am trying to find out is, did a single one of them take it up with your Department?

Mr. PERCE. As to whether they could pay it out?

The CHAIRMAN. Whether they could or could not pay out.

Mr. PERCE. I do not think they did.

The CHAIRMAN. You do not think they did?

Mr. PERCE. No, sir.

Senator BUSH. Mr. Chairman, would they have to, under the language that you read there? It says if they pay it out of net earnings. What did they pay it out of?

The CHAIRMAN. How can you have net earnings if you haven't created a project?

Senator BUSH. They have sold part of what they owned at a profit. What is net earnings?

The CHAIRMAN. They sold it to the Government, you mean.

Mr. PERCE. I don't know. They borrowed the money—

Senator BUSH. If they sold the mortgage and made a profit on it, that is earnings.

The CHAIRMAN. They didn't sell the mortgage.

Senator BUSH. What did they sell?

The CHAIRMAN. I am fearful the Senator doesn't understand what has happened. What they did is this: They got a commitment in advance from FHA for a million dollars, an estimate, you see, on the cost. When they got all through, it didn't cost them a million—I am giving you an example now—but it cost them \$750,000. But they went over to the bank and got a million dollars, because FHA had guaranteed a million dollars. But it only cost them \$750,000, so they had \$250,000 cash on hand.

Senator BUSH. So they had income of \$250,000, and costs of \$750,000.

The CHAIRMAN. No. They had cash on hand of \$250,000. It was not income.

Senator BUSH. What was it?

Mr. PERCE. Surplus.

The CHAIRMAN. They still owed a million dollars on the mortgage, but they picked up \$250,000.

Now, my point is, in all those cases—and I say, again, the Internal Revenue Service tells us that there were 1,149 of them—they owned all the preferred stock, and the charter said that they could not declare dividends except with their approval—

Mr. PERCE. No, no. I don't agree with that.

The CHAIRMAN. Except out of the net earnings.

Mr. PERCE. I don't know what the net earnings are.

The CHAIRMAN. I am trying to find out if these 1,149 firms, if there are 1,149—I am not saying there are, but we know there are some—did they come down here to Washington and say, "We have \$250,000 cash on hand, which is the difference between what this project actually costs us to build and the amount of cash we received from the mortgage," and ask permission to pay it out? That is what we are trying to find out. Now, the witness says—

Mr. PERCE. I am sure they didn't.

Senator BENNETT. Mr. Chairman, would you permit an observation?

The CHAIRMAN. Yes, Senator Bennett.

Senator BENNETT. If we are debating now as to the meaning of net earnings, isn't it a fact that these people, in their dealings with the Internal Revenue Service, are insisting that these are not net earnings and therefore they are not subject to the normal income tax, so that they, by this claim, admit that these dividends were not paid out of net earnings?

The CHAIRMAN. Yes, that is what this lawsuit is, in this Gross case. The Government is suing these people on the basis that it is income, normal income, rather than capital gain. They take the position that it is capital gain.

Senator BUSH. That is the contention of Internal Revenue?

The CHAIRMAN. That is right.

Senator BUSH. That was my understanding of what it was, and if it was a capital gain, then it was income. I mean it was income and therefore subject to dividend payment.

The CHAIRMAN. If it is capital gain, it is distribution of capital.

Senator BENNETT. That is right.

Senator BUSH. Not necessarily. It is income of the corporation. A capital gain is income from the corporation. That is the position the Internal Revenue Service is taking, unless I misunderstand it. I would like to have it corrected if I am wrong.

The CHAIRMAN. Internal Revenue Service is taking the position that it is normal income. The taxpayer is taking the position that it is capital gain.

Senator BUSH. In either case, it is income.

The CHAIRMAN. But the point is, the thing that the Senator wants to remember is that the owner hasn't sold anything. He still owns the property. He still owes a million dollars on his mortgage. But he got a million dollars for something that cost him \$750,000, so therefore he has \$250,000 cash on hand.

Senator BUSH. And he hasn't sold his stock?

The CHAIRMAN. No; he hasn't done anything.

Senator BUSH. He hasn't sold his property?

The CHAIRMAN. He hasn't sold his property. He still owns it.

And my point is that the Internal Revenue Service maintains that there are several hundred of them. I don't know whether there are not, but they maintain so. We do know of many cases. We do have one in our hands, and that one happens to be in the courts, and it runs—well, I won't say, because I might be wrong, but it is many, many hundreds of thousands of dollars.

What I am trying to find out is this: Did these 1,149 people come in and ask permission from FHA, who owned all preferred stock of each corporation. It has been testified to here, FHA must receive from them a yearly statement, must be kept advised? If they did default, FHA would immediately take over the corporation and elect directors, and so on and so forth.

It would seem to me that FHA, this gentleman here and Mr. Powell, would have required that of these corporations before they came here, that, to come down here and get their permission.

Mr. PERCE. I don't see where we had that power under the charter.

Senator PAYNE. Mr. Chairman, if what you say is correct, and if the law is as I read it, and if the builders have declared that that which they have gained is a capital gain, under the circumstances, not having a lawyer but having some knowledge of accounting, I would think that there would be a very serious question if, taking the construction of the act itself on the 90-percent clause, the builders themselves are in violation of the act itself, on the capital gains.

The CHAIRMAN. Let me ask you this, Mr. Perce: Did you ever hear, the second man in command of the section 608s, that there was this sort of thing happening?

Mr. PERCE. I think I did, sir, quite frequently.

The CHAIRMAN. You did hear it?

Mr. PERCE. Yes, sir.

The CHAIRMAN. Did you do anything about it?

Mr. PERCE. No; as is well known. It was taken up by Mr. Powell. I spoke to Mr. Richards and the other gentlemen. We were told they were borrowing more money, that they mortgaged out profits, sir. I think it was brought to the attention of Congress, myself.

The CHAIRMAN. If there is no objection from the committee, I wish I would have the FHIA deliver to us no later than 2 o'clock today

the charter of the Gross Co., showing just exactly what the charter was and what they were required to have written into their incorporation, by which FHA owns \$100 worth of preferred stock. Let's see whether or not in this particular case you had a right.

(The information referred to follows:)

CERTIFICATE OF INCORPORATION OF GLEN OAKS VILLAGE NO. 11, INC.

(Pursuant to Article 2 of the Stock Corporation Law)

(Dated: February 19th, 1948)

We, the undersigned, for the purpose of forming a corporation pursuant to Article 2 of the Stock Corporation Law of the State of New York, certify:

FIRST: The name of the proposed corporation (which is hereinafter called the Corporation), is:

GLEN OAKS VILLAGE NO. 11, INC.

SECOND: The purpose for which the corporation is formed and the business and objects to be carried on and promoted by it are as follows:

(a) to create a private corporation to provide housing for rent or sale, and to acquire any real estate or interest or rights therein or appurtenant thereto and any and all personal property in connection therewith.

(b) to improve and operate, and to sell, convey, assign, mortgage or lease any real estate and any personal property.

(c) to borrow money and issue evidences of indebtedness in furtherance of any or all of the objects of its business; to secure the same by mortgage, deed of trust, pledge or other lien.

(d) to apply for and obtain or cause to be obtained from the Federal Housing Commissioner a contract or contracts of mortgage insurance pursuant to the provisions of the National Housing Act as amended, covering bonds, notes and other evidences of indebtedness issued by this Corporation and any indenture of Mortgage or Deed of Trust securing the same. So long as any property of this Corporation is encumbered by a mortgage or Deed of Trust insured by the Federal Housing Commissioner it shall engage in no business other than the construction and operation of a Rental Housing Project or Projects.

(e) to enter into, perform and carry out contracts of any kind necessary to, or in connection with, or incidental to the accomplishment of any one or more of the purposes of the Corporation.

THIRD: The amount of the capital stock of the said Corporation shall be the sum of Nineteen Thousand One Hundred (\$19,100.00) Dollars.

FOURTH: The capital stock shall consist of Two Thousand (2,000) shares, which are to be classified so that One Hundred (100) shares having a par value of One Dollar (\$1.00) per share shall be designated "preferred stock" and One Thousand Nine Hundred (1,900) shares shall be designated "common stock" with a par value of Ten (\$10.00) Dollars each, which shares of capital stock shall have the designations, preferences, privileges, and voting powers and the restrictions or qualifications thereof as follows:

(a) The holders of the preferred stock shall be entitled to receive, when and as declared by the Board of Directors, noncumulative dividends at the rate of five cents (5¢) per share per annum, before any sum or sums shall be set apart for or applied to the purchase or redemption of the preferred stock and before any dividend or other distribution shall be declared, set apart, paid, or made in respect of the common stock.

(b) The net earnings of the Corporation, after providing therefrom dividends on preferred stock and all reserves hereinafter required, may be applied each year in payment of dividends to common stockholders.

(c) The preferred stock at any time outstanding may be redeemed by the Corporation at par and dividends declared thereon, but unpaid to the date of such redemption, provided, however, that such stock shall be so redeemed if there is surplus available for the purpose, upon, but in no event before, the termination of any contract of mortgage insurance covering any indebtedness of the Corporation without obligation upon the Commissioner to issue debentures as a result of such termination. Preferred stock so redeemed shall be retired and canceled.

(d) Anything to the contrary herein notwithstanding, no dividends shall be paid upon any of the capital stock of the corporation (except with the consent of the holders of a majority of the shares of each class of stock then outstanding) until all amortization payments due under the Mortgage insured by the Federal Housing Commissioner have been paid, and until a reserve fund for replacements is first established and maintained by the allocation to such reserve fund in a separate account with the mortgagee (or in the case of a Deed of Trust with the Beneficiary) or in a safe and responsible depository designated by the mortgagee commencing on the date of the first payment toward amortization of the principal of the mortgage insured by the Commissioner unless a later date is approved in writing by the holders of the preferred stock, of an amount equal to Seven Hundred Ten and 59/100 (\$710.59) Dollars, and a like amount monthly thereafter. Such fund, whether in the form of a cash deposit or invested in obligations of, or fully guaranteed as to principal and interest by the United States of America, shall at all times be under the control of the mortgagee. Disbursements from such fund, whether for the purpose of effecting replacements of structural elements, furnishings and mechanical equipment of the project or for any other purpose, may be made only after receiving the consent in writing of the holders of the preferred stock.

(e) In the event of any default by the corporation, as hereinafter defined, and during the period of such default, the holders of the preferred stock, voting as a class, shall be entitled to remove all existing directors of the corporation, and to elect new directors in their stead: Provided, however, that one of said directors shall be the owner or holder of one or more shares of common stock. When such default or defaults shall have been cured, the right to elect directors shall again vest in the holders of the common stock.

FIFTH: The Corporation shall not without prior approval of the holders of a majority of the shares of preferred stock, given either in writing or by vote at a meeting of the preferred stockholders called for that purpose (a) assign, transfer, dispose of or encumber any real or personal property, including rents, except as specifically permitted by the terms of the mortgage, (b) remodel, reconstruct, demolish or subtract from the premises constituting the project and subject to such mortgage, (c) permit the occupancy of any of the dwelling accommodations of the corporation except at or below the rents fixed by the schedule of rentals provided hereinafter, (d) consolidate or merge the Corporation into or with any other corporation; go into voluntary liquidation; carry into effect any plan of reorganization of the Corporation; redeem or cancel any of its shares of preferred stock, or effect any changes whatsoever in its capital stock; alter or amend the certificate of incorporation or fail to establish and maintain reserves as set forth in this certificate of incorporation.

SIXTH: (a) The happening of any of the following events shall constitute a default within the meaning of that word as used in this certificate: (1) the failure of the Corporation to have dismissed within thirty days after commencement, any receivership, bankruptcy or other form of liquidation instituted by or against the corporation; (2) the failure of the Corporation to pay the principal, interest, or any other payment due on any note, bond, or other obligation executed by it, as called for by the terms of such instrument; (3) the failure of the Corporation to establish and maintain the reserve fund for replacements as provided in Article Fourth, Section (d) hereof or the use of such fund except as permitted in said section; (4) the failure of the Corporation, continuing for a period of fifteen days, to perform any of the covenants, conditions or provisions required by it to be performed by this certificate, the By-Laws of the Corporation, the Mortgage, or any contract to which the Corporation and the Commissioner shall be parties, or fail to carry out in full the terms of any agreement whereby the loan covered by the insured mortgage is to be advanced or the project is to be constructed and operated.

(b) In the event the mortgagor is in default under the terms of this certificate of incorporation or has failed to perform the covenants required by it to be performed under the terms of this certificate or by any mortgage insured by the Commissioner, the Commissioner may require the Corporation to furnish, at the expense of the Corporation, a complete audit of its books of account duly certified by a certified public accountant.

(c) Upon any default by the Corporation, the president or the secretary, or either of them, as may be required by law, shall, at the request in writing of the holders of record of a majority of shares of the preferred stock, addressed to him

at the office of the Corporation, hereinafter designated, and stating the purpose of the meeting, forthwith call a special meeting upon notice not less than 10 or more than 40 days, of the preferred stockholders for the purpose of the removal of existing directors and the election of new directors. If such officers shall fail to issue a call for such meeting within three days after the receipt of such request, then the holders of a majority of the shares of the preferred stock may do so by giving notice as provided by law, or, if not so provided, then by giving ten days' notice of the time, place and object of the meeting by advertisement inserted in any newspaper published in the county or city in which the principal office of the Corporation is situated. When such default shall have been cured, the president or the secretary, or either of them, as may be required by law, shall, at the written request of the holders of a majority of the outstanding shares of the capital stock of the Corporation, call, in the manner provided by law, a special meeting of the stockholders of the Corporation at which the then existing directors may be removed and new directors elected in the usual manner provided in this certificate of incorporation. Such officer shall give notice as provided by law, or, if not so provided, he shall give ten days' notice of the time, place and object of such meeting as above provided.

SIXTH: The following provisions are hereby adopted for the conduct of the affairs of the Corporation and in regulation of the powers of the Corporation, the directors and stockholders:

(a) (1) Dwelling accommodations of the Corporation shall be rented at a maximum average rental per room per month fixed by the Board of Directors of the Corporation and approved by the holders of the preferred stock. A schedule of rentals for the reasonable rental value of each apartment based upon the average as so determined shall be filed with the holders of the preferred stock, prior to leasing or offering for lease any of the dwelling accommodations of the project, and when approved by them, shall thereafter be maintained, except as provided in Article Fifth hereof. Such accommodations shall be rented at a rental to be fixed by the directors with the prior or written approval of the holders of the preferred stock. (2) The corporation shall have the right to charge to and receive from a tenant such amounts as from time to time may be mutually agreed upon between tenant and the Corporation with the written approval of the holders of a majority of the shares of preferred stock, for any facilities and/or services which may be furnished by the Corporation to such tenant upon his request, over and above the facilities and services to which such tenant may be entitled by virtue of his lease, including, among other things, telephone operator and switchboard services, electric current, gas, air conditioning and other additional or extraordinary facilities or services which may be furnished by the Corporation in connection with the operation of such housing facilities. (3) Dwelling accommodations of the corporation shall not be rented for a period in excess of three (3) years nor shall the property be rented as an entirety without prior written approval of the preferred stockholders.

(b) The Corporation shall maintain its accommodations and the ground and equipment appurtenant thereto in good and substantial repair and condition: Provided, that in the event all or any of the buildings covered by the mortgage shall be destroyed or damaged by fire or other casualty, insurance deriving from any insurance on the property shall be applied in accordance with the terms of the insured mortgage on the premises.

(c) The Corporation, its property, equipment, buildings, plans, office apparatus, books, books, business records, documents and other papers relating thereto shall be subject to examination and inspection at any reasonable time by the Commissioner or his duly authorized agents. The Corporation shall keep full and complete records of all corporate meetings of directors and stockholders and shall also keep copies of all written contracts or other instruments which affect in any way the property, all or any of which may be subject to examination and examination by the Commissioner or his duly authorized agents.

(d) The books and accounts of the corporation shall be kept in accordance with the uniform system of accounting prescribed by the holders of the preferred stock.

(e) The Corporation shall furnish the Commissioner within sixty days following the end of each fiscal year a complete annual financial report.

(f) At the request of the Commissioner or at the request of a majority of shares of the preferred stock, his or their agents, employees or attorneys

the Corporation shall give specific answers to questions upon which information is desired from time to time relative to the income, assets, liabilities, contracts, operation and condition of the property and the status of the insured mortgage and any other information with respect to the Corporation or its property which may be requested.

EIGHTH: The location of the principal office shall be in the Borough of Queens, County of Queens, City and State of New York, but it may maintain other business offices in other cities and towns in the State of New York and in other places outside the State of New York, and the address to which the Secretary of State shall mail a copy of process in any action or proceeding against the Corporation which may be served upon him, pursuant to law, is c/o Abraham A. Jacobson, 163-18 Jamaica Avenue, Jamaica, Queens County, New York City, New York.

NINTH: The duration of this corporation is to be perpetual.

TENTH: The number of directors shall not be less than three (3) nor more than nine (9), who shall act as such until their successors are duly chosen and qualified.

ELEVENTH: The names and post office addresses of the directors until the first annual meeting of the stockholders are as follows:

<i>Names</i>	<i>Post Office Addresses</i>
Abraham A. Jacobson.....	163-18 Jamaica Avenue, Jamaica, Borough and County of Queens, City and State of New York
John F. X. Hasseti.....	1422 Shakespeare Avenue, Borough and County of Bronx, City and State of New York
Evelyn Jacobson.....	184-08 Midland Parkway, Jamaica, Borough and County of Queens, City and State of New York

TWELFTH: The names and post office addresses of the subscribers to this certificate and the number of shares of stock which each agrees to take in the corporation are as follows:

<i>Names</i>	<i>Post office addresses</i>	<i>Number of shares</i>
Abraham A. Jacobson.....	163-18 Jamaica Avenue, Jamaica, Borough and County of Queens, City and State of New York.	One.
John F. X. Hasseti.....	1422 Shakespeare Avenue, Borough and County of Bronx, City and State of New York.	One.
Evelyn Jacobson.....	184-08 Midland Parkway, Jamaica, Borough and County of Queens, City and State of New York.	One.

THIRTEENTH: The Secretary of State of the State of New York is hereby designated as the agent of the Corporation upon whom process in any action or proceeding against it may be served.

FOURTEENTH: All of the subscribers of this certificate are of full age and all of them are citizens of the United States and all of them are residents of the State of New York, and all of the persons named as directors are citizens of the United States and are residents of the State of New York.

IN WITNESS WHEREOF, we have made, signed, and subscribed this certificate in triplicate this 19th day of February 1948.

ABRAHAM A. JACOBSON (L. S.)
JOHN F. X. HASSETT (L. S.)
EVELYN JACOBSON (L. S.)

STATE OF NEW YORK.

County of Queens, ss:

On this 19th day of February 1948, before me personally appeared ABRAHAM A. JACOBSON, JOHN F. X. HASSETT and EVELYN JACOBSON, to me known and known to me to be the individuals described in, and who executed, the forgoing certificate, and they acknowledged to me that they executed the same.

LOUIS H. ROHR,

Notary Public, Queens County, Queens Co. Clks No. 2160, Reg. No. 57-R-8.
Commission expires March 30, 1948.

STATE OF NEW YORK,

County of Queens, ss:

I, PAUL LIVOTI, Clerk of the County of Queens and Clerk of the Supreme Court and County Court in and for said County, the same being courts of record having a seal, DO HEREBY CERTIFY that I have compared the annexed with the original Certification of Incorporation, Glen Oaks Village No. 11, Inc., in my office Mar. 13, 1948 and that the same is a true transcript thereof, and of the whole of such original.

In Testimony Whereof, I have hereunto set my hand and affixed the seal of said County and Court this ---- day of April 6, 1949.

PAUL LIVOTI, *Clerk.*

STATE OF NEW YORK,

Department of State, ss:

I Certify that I have compared the preceding copy with the original Certificate of Incorporation of GLEN OAKS VILLAGE, No. 11, INC., filed in this department on the 5th day of March 1948, and that such copy is a correct transcript therefrom and of the whole of such original.

Witness my hand and the official seal of the Department of State at the City of Albany, this 5th day of March, one thousand nine hundred and forty-eight.

[SEAL]

JAMES E. NASH,
Deputy Secretary of State.

CERTIFICATE AMENDING, LIMITING, AND OTHERWISE CHANGING CERTAIN POWERS AND PROVISIONS IN THE CERTIFICATE OF INCORPORATION OF GLEN OAKS VILLAGE No. 11, INC.

Pursuant to section 35 of the stock corporation law

We, the undersigned, being respectively the Vice President and the Assistant Secretary of GLEN OAKS VILLAGE No. 11, INC., hereby certify:

- (1) The name of the corporation is GLEN OAKS VILLAGE No. 11, INC.
- (2) The certificate of incorporation of said corporation was filed in the Department of State of the State of New York on March 5, 1948.
- (3) The powers and provisions contained in said certificate of incorporation are amended, limited, and changed to read as follows:

A. By changing Article Second, Section (d), which now reads as follows:

"(d) to apply for and obtain or cause to be obtained from the Federal Housing Commissioner a contract or contracts of mortgage insurance pursuant to the provisions of the National Housing Act, as amended, covering bonds, notes, and other evidences of indebtedness issued by this Corporation and any indenture of Mortgage or Deed of Trust securing the same. So long as any property of this Corporation is encumbered by a mortgage or Deed of Trust insured by the Federal Housing Commissioner it shall engage in no business other than the construction and operation of a Rental Housing Project or Projects."

by inserting in the second line thereof, as set forth in the original certificate of incorporation, on file, immediately following the word "Commissioner" the words "(hereinafter called the Commissioner)" so that said Section (d) of Article Second shall read as follows:

"(d) to apply for and obtain or cause to be obtained from the Federal Housing Commissioner (hereinafter called the Commissioner) a contract or contracts of mortgage insurance pursuant to the provisions of the National Housing Act as amended, covering bonds, notes, and other evidences of indebtedness issued by this corporation and any indenture of Mortgage or Deed of Trust securing the same. So long as any property of this corporation is encumbered by a mortgage or Deed of Trust insured by the Federal Housing Commissioner it shall engage in no business other than the construction and operation of a Rental Housing Project or Projects."

B. By changing the first sentence of Article Fourth, Section (d), which now reads as follows:

"(d) Anything to the contrary herein notwithstanding, no dividends shall be paid upon any of the capital stock of the corporation (except with the consent of the holders of a majority of the shares of each class of stock then outstanding) until all amortization payments due under the Mortgage

insured by the Federal Housing Commissioner have been paid, and until a reserve fund for replacements is first established and maintained by the allocation to such reserve fund in a separate account with the mortgagee (or in the case of a Deed of Trust with the Beneficiary) or in a safe and responsible depository designated by the mortgagee commencing on the date of the first payment towards amortization of the principal of the mortgage insured by the Commissioner unless a later date is approved in writing by the holders of the preferred stock, of an amount equal to Seven Hundred Ten and 59/100 (\$710.59) Dollars, and a like amount monthly thereafter."

By deleting the words and numerals "Seven Hundred Ten and 59/100 (\$710.59) Dollars" from the fourteenth and fifteenth lines thereof, as set forth in the original certificate of incorporation on file, and by substituting in place thereof the words and numerals "Six Hundred Eighty-two and 92/100 (\$682.92) Dollars" so that said first sentence of Article Fourth, Section (d) shall read as follows:

"(d) Anything to the contrary herein notwithstanding, no dividends shall be paid upon any of the capital stock of the corporation (except with the consent of the holders of a majority of the shares of each class of stock then outstanding) until all amortization payments due under the Mortgage insured by the Federal Housing Commissioner have been paid, and until a reserve fund for replacements is first established and maintained by the allocation to such reserve fund in a separate account with the mortgagee (or in the case of a Deed of Trust with the Beneficiary) or in a safe and responsible depository designated by the mortgagee commencing on the date of the first payment towards amortization of the principal of the mortgage insured by the Commissioner unless a later date is approved in writing by the holders of the preferred stock, of an amount equal to Six Hundred Eighty-two and 92/100 (\$682.92) Dollars, and a like amount monthly thereafter."

C. By adding a new section to Article Fourth, immediately following Section (e) thereof, which new section shall read as follows:

"(f) Except as otherwise provided by law or as set forth elsewhere in this certificate of incorporation, all voting rights of the stockholders shall be vested exclusively in the holders of the common stock."

D. By amending Article Fifth which now reads as follows:

"Fifth: The Corporation shall not without prior approval of the holders of a majority of the shares of preferred stock, given either in writing or by vote at a meeting of the preferred stockholders called for that purpose (a) assign, transfer, dispose of or encumber any real or personal property, including rents, except as specifically permitted by the terms of the mortgage, (b) remodel, reconstruct, demolish or subtract from the premises constituting the project and subject to such mortgage, (c) permit the occupancy of any of the dwelling accommodations of the corporation except at or below the rents fixed by the schedule of rentals provided hereinafter, (d) consolidate or merge the Corporation into or with any other corporation; go into voluntary liquidation; carry into effect any plan of reorganization of the Corporation; redeem or cancel any of its shares of preferred stock, or effect any changes whatsoever in its capital stock; alter or amend the certificate of incorporation or fail to establish and maintain reserves as set forth in this certificate of incorporation."

By changing the period at the end thereof to a comma and by adding at the end hereof the following language:

"(e) require as a condition to the occupancy or leasing of any unit in the project the purchase of any corporation stock either from the corporation or any stockholder or the payments of any consideration other than the reasonable rental provided for in the schedule of rentals to be filed with and approved by the holders of the preferred stock as provided hereinafter, (f) require as a condition to the occupancy or leasing of any unit in the project the payment to or deposit with the corporation, or any person or persons, of any amount other than the payment of the first month's rent plus a security deposit in an amount not in excess of one month's rent to guarantee the performance of the covenants of the lease."

E. By changing the first sentence of Article Sixth, Section (c), which now reads as follows:

"(c) Upon any default by the Corporation, the president or the secretary, or either of them, as may be required by law, shall, at the request in writing of the holders of record of a majority of shares of the preferred stock, addressed to him at the office of the Corporation, hereinafter designated, and stating the purpose of the meeting, forthwith call a special meeting

upon notice not less than 10 or more than 40 days, of the preferred stockholders for the purpose of the removal of existing directors and the election of new directors."

by deleting the words "a majority of" from the third line thereof, as set forth in the original certificate of incorporation on file, and substituting in place thereof the words "all of the" so that said first sentence of Article Sixth, Section (c) shall read as follows:

"(c) Upon any default by the Corporation, the president or the secretary, or either of them, as may be required by law, shall, at the request in writing of the holders of record of all of the shares of the preferred stock, addressed to him at the office of the Corporation, hereinafter designated, and stating the purpose of the meeting, forthwith call a special meeting upon notice not less than 10 or more than 40 days, of the preferred stockholders for the purpose of the removal of existing directors and the election of new directors."

IN WITNESS WHEREOF, we have made, subscribed and acknowledged this certificate this 3d day of March 1949.

ALFRED GROSS,
Vice President of Glen Oaks Village No. 11, Inc.
EUGENE EDWARD FINK,
Assistant Secretary of Glen Oaks Village No. 11, Inc.

STATE OF NEW YORK,
County of Queens, ss:

On the 3rd day of March 1949 before me personally come ALFRED GROSS and EUGENE EDWARD FINK, to me known to be the persons described in and who executed the foregoing certificate, and they thereupon severally duly acknowledged to me that they executed the same.

HENRY KAWECKI,
Notary Public, State of New York, Residing in Queens County, Queens
Co. Clk's No. 3491, Reg. No. 264-K-0, Nassau County Clerk's No.
53-K-50.

Term expires March 30, 1950.

STATE OF NEW YORK,
County of Queens, ss:

ALFRED GROSS and EUGENE EDWARD FINK, being severally duly sworn, depose and say and each for himself deposes and says that said ALFRED GROSS is vice president of GLEN OAKS VILLAGE No. 11, INC., and that said EUGENE EDWARD FINK is Assistant Secretary of said corporation; that they have been authorized to execute and file the foregoing certificate by the votes, passed in person or proxy, of the holders of record of two-thirds of the outstanding shares of the corporation entitled to vote thereon at the stockholders' meeting at which the votes were cast with relation to the proceedings provided for in the foregoing certificate; that such votes were cast at a stockholders' meeting held upon written waiver, pursuant to Section 31 of the General Corporation Law, of the notice required by Section 45 of the Stock Corporation Law by every stockholder entitled to said notice or entitled to participate in the action taken; and that such meeting was held on March 3rd, 1949.

ALFRED GROSS.
EUGENE EDWARD FINK

Severally subscribed and sworn to before me this 3rd day of March 1949.

HENRY KAWECKI,
Notary Public, State of New York, Residing in Queens County, Queens
Co. Clk's No. 3491, Reg. No. 264-K-0, Nassau County Clerk's No.
53-K-50.

Term expires March 30, 1950.

STATE OF NEW YORK,
County of Queens, ss:

I, PAUL LIVOTI, Clerk of the County of Queens and Clerk of the Supreme Court and County Court in and for said County, the same being courts of record having a seal, Do HEREBY CERTIFY that I have compared the annexed with the

No. C 5630

Certificate of Amendment C. of I. filed in my office March 31, 1949, that the same is a true transcript thereof, and of the whole of such original testimony Whereof, I have hereunto set my hand and affixed the seal of my hand and Court this 6th day of April 1949.

PAUL LIVOTI, *Clerk.*

NEW YORK,
Department of State, ss:

I certify that I have compared the preceding copy with the original Certificate of Amendment of Certificate of Incorporation of GLEN OAKS VILLAGE No. 11, INC., this department on the 22nd day of March 1949 and that such copy is a transcript therefrom and of the whole of such original.

In witness my hand and the official seal of the Department of State at the City of New York, this 22nd day of March one thousand nine hundred and forty-nine.

1

RUTH M. MINER,
Deputy Secretary of State.

Mr. DOUGLAS. Mr. Chairman, may I make a procedural point?

CHAIRMAN. Yes.

Mr. DOUGLAS. In order that the press and the public may not misunderstand what the chairman is doing, it is my understanding the facts which he is reciting in the Gross case are already matters of public record in the court, and that he is therefore in no sense presenting material to which the Gross people do not have the right to see. I think that should be understood by the press.

CHAIRMAN. I would be very happy to have them. I would love to have them come down tomorrow and testify.

Mr. DOUGLAS. I understand, but you are simply bringing in records, and you are not introducing matters afresh.

CHAIRMAN. Yes. What we are trying to find out here is how many of these projects, with as close supervision as you could have had over them, owning all the preferred stock in their corporations, writing their charters, entitled to get annual reports or reports or daily reports from them under your arrangement, how it was possible for them to pay out this money. The difference between the cost of the project and the amount that they paid for the mortgage, how they were able to do it without you talking about it.

That is what we are trying to find out. It has a lot of bearing upon how we write an amendment to the existing law, and how we write proposed law that is before us, to avoid having this thing happen again.

Do you have all the authority that you needed to control this money, if you wanted to control it?

PERCE. I am not sure we had any right to object to their paying if they paid it out properly. Now, the question as to whether they could have paid it in regular dividends or capital gains, is somewhat I can't determine. It seems to me if a man borrows more than he wants, he saves—

CHAIRMAN. But you think it is right for a man to borrow more than the 90 percent of the cost of the project, when the Federal Government is guaranteeing that excess amount. They might stand to

lose it, as a default. As a Federal public officeholder, which you are, do you make that statement?

Mr. PERCE. I didn't say that, based upon an estimate we would have more money left—

The CHAIRMAN. For example, part of the law:

The Commissioner may, in his discretion, require such mortgagors to be regulated or restricted as to rents or sales— capital structure, rate of return.

What does that mean, "of"? What does that mean to you?

Mr. PERCE. We figure it from the rents, not the borrowings.

The CHAIRMAN. You are talking about doing something to do with the rate of return on their stock?

Mr. PERCE. The rate of return, there, I think first is the rate of return which is net rent.

The CHAIRMAN. Let's read it again.

Mr. PERCE. I don't think it means they borrow more money.

The CHAIRMAN. It says:

The Commissioner may in his discretion require such mortgagors to be regulated or restricted as to rents or sales—

we have already covered rents—

charges, capital structure, rate of return.

It doesn't have anything to do with the rents, because we mentioned rents up above.

Mr. PERCE. I think that was the interpretation of the Commissioner.

The CHAIRMAN. And "methods of operation."

Mr. PERCE. Yes. The rate of return, I think, is interpreted by the Commissioner to mean the net rent.

The CHAIRMAN. Why were you so solicitous about everything except this one thing we are talking about?

Mr. PERCE. Frankly I didn't know much about it at the time it happened.

The CHAIRMAN. Did you know that these corporations were being organized with little or no money?

Mr. PERCE. Yes, sir.

The CHAIRMAN. You thought that was perfectly all right?

Mr. PERCE. As they organized under the laws of the State in which they were organized.

The CHAIRMAN. You thought that was perfectly normal and right for a man to just limit himself to \$7,500 on a \$4 million project?

Mr. PERCE. I haven't any question. It is part of the policy.

The CHAIRMAN. For example, in this Gross case here, they put \$7,500 in each of their corporations.

Mr. PERCE. They put in as little as they had to.

The CHAIRMAN. They what?

Mr. PERCE. They put in as little as they had to, because they didn't want to pay taxes on it.

The CHAIRMAN. Why didn't you make them put more in? Why did you let them off the hook; so to speak? Why did you permit them to organize with such a small amount of capital, with such large mortgages?

Mr. PERCE. I wouldn't know that the large mortgages had anything to do with it.

Senator BUSH. Mr. Chairman, may I ask a question on that point?

The CHAIRMAN. Senator Bush.

Senator BUSH. Isn't it true you conceive the law to be designed to stimulate these projects?

Mr. PERCE. Yes, sir.

Senator BUSH. And that your inclination would naturally be, under the law, the way it is drawn, to encourage the building of these projects?

Mr. PERCE. Absolutely. That was what ran through my mind.

Senator BUSH. My observation, Mr. Chairman, is that the law encouraged them to do just what they did.

Mr. PERCE. I think so.

The CHAIRMAN. I don't think that the Congress ever intended to encourage any agency of Government—

Senator BUSH. I didn't say the Congress. I say as the law is written it encourages them to do just what they did.

The CHAIRMAN. I don't agree.

Senator PAYNE. I disagree.

The CHAIRMAN. I regret exceedingly that the Senator makes that statement, because I don't think the Congress ever encouraged sloppy administration.

Senator BUSH. I didn't say it encouraged sloppy administration.

Senator PAYNE. Mr. Chairman, this provision of the law itself spells out in what I consider to be reasonably clear English that, sure, it encourages the building—

Senator BUSH. That is my point.

Senator PAYNE. A volume of new residential construction, but without supporting unnecessary or artificial costs. And in estimating the current costs, the Federal Housing Commissioner, not may but shall, use every feasible means to assure that the estimates will approximate as closely as possible, not the estimated cost, but the actual cost of efficient building operations.

With that provision in the law in effect it closely ties in with the provision of the law which says, "Yes, the Government will insure up to 90 percent of the cost of the project." But it certainly, by no stretch of the imagination, in good common English, could ever be interpreted as meaning to support the costs of a project at 120 percent or better than that.

Senator BUSH. Mr. Chairman, I agree entirely with what the Senator said. I don't disagree with that at all. I agree with everything he said then and what he said previously about that point. But the point we are talking about is something different. I say that the law, the way it is written, encouraged them to do these things that they have done. I don't say it was right.

The CHAIRMAN. I don't believe I see anything in the law that encouraged them to do these things.

Senator BUSH. Show me something in the law that gives FHA the authority to say how much capital a fellow should put into a corporation to build one of these apartment houses.

The CHAIRMAN. I don't know that the capital—

Senator BUSH. That is the question you were raising.

The CHAIRMAN. It says "capital structure." I suppose we could have written into the law that nobody could build under section 608 unless he had a million dollars worth of capital.

Senator BUSH. Or unless he had 10 percent of the total final value of the mortgage.

The CHAIRMAN. But I don't think it was ever intended that we would let somebody in with a thousand dollars to build a million dollar project.

Senator BUSH. It wasn't intended, but the law, the way it was written and administered, permitted that.

Senator BENNETT. Mr. Chairman, may I make a comment?

The CHAIRMAN. I didn't write the law. It was written back in 1940. I wasn't here, so I can't tell what the intention was. But I don't believe that the Senators on this committee back in 1940, or the Senators in the Senate back in 1940, ever intended that a man would invest a thousand dollars and get a mortgage of \$2 million or \$3 million or \$4 million.

I can well understand putting up a thousand dollars in a corporation and getting a \$2 million mortgage, providing the owners of the stock endorse the mortgage. You have been a banker. You certainly wouldn't loan anybody \$4 million on a thousand dollars unless they endorsed it.

Senator BUSH. My dear sir, of course I wouldn't. And neither did these other bankers. They were lending it on the authority of the United States Government.

The CHAIRMAN. That is right.

Senator BENNETT. Mr. Chairman, may I make a comment?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. I have listened to this discussion about capitalization of these corporations. It seems to me very clear—and it was testified to yesterday, I believe—that the Government would not deal with an individual; they required a corporation. And the purpose of requiring a corporation was, first, that they might hold the preferred stock and thus have a privilege of control.

Secondly, that they might, through the charter, specifically spell out the power of the Commissioner to interfere with the operation of the corporation.

If that was the purpose of requiring incorporation, it could have been achieved just as well with a corporation set up to meet the minimum requirements of a State law, as it could if they required the larger capitalization.

The purpose of the corporation device, as I see it, was, first, to make sure that the preferred stock was available to the Commissioner and second, to make sure that every borrower was bound by the limits of the charter on which these corporations were set up. That being the case, we are faced with the realization that, having built these safeguards into the charter and having set up the device of preferred stock, the Commission then proceeded to ignore the powers that it acquired, because it insisted on dealing with corporations under specific circumstances.

So I am not concerned with the size of the corporation as I am with the fact that they use the corporate device to set up certain powers, and then they neglected to use the powers they had thus created.

The CHAIRMAN. I could well understand why a project cost a million and they got a million and a half dollars for the mortgage, but I don't know why they didn't then simply say, "We will reduce the mortgage by \$500,000."

Mr. PERCE. I don't know.

The CHAIRMAN. Why did you permit them to take the money out? Why didn't you reduce the money?

Mr. PERCE. I don't think we had any power.

Senator BENNETT. The power was built into the corporate device. It is right there, spelled out very clearly.

The CHAIRMAN. You wrote their corporation charters.

Mr. PERCE. Yes.

The CHAIRMAN. I think you wrote it strong enough to have protected yourself, even the way you wrote it. But if not, why didn't you write it so they couldn't do what they did?

Mr. PERCE. I don't see how we have any power to prevent them from borrowing money.

The CHAIRMAN. The man has the right to go and borrow \$100 million on a property if he wants to. That is his privilege, and if somebody is willing to loan it to him, fine, he can do whatever he wants to. But in this instance the Government was guaranteeing the mortgage.

Mr. PERCE. Yes, sir.

The CHAIRMAN. Therefore, you were possibly defrauding the Federal Government, if at a later date that mortgage became in default and the taxpayers had to make it good.

Senator DOUGLAS. Mr. Chairman, may I raise a question on that very point: How many section 608 projects have gone into default, Mr. Perce?

Mr. PERCE. I think that we own about 165 or 170. And there may have been others in which the mortgage has been assigned to the Commissioner and the Commissioner is now the mortgagee.

Senator DOUGLAS. How many of those?

Mr. PERCE. I will have to check the exact figure.

Senator DOUGLAS. One hundred and sixty-five have gone into default?

Mr. PERCE. That is what we own.

Senator DOUGLAS. What is the total value of the mortgages on these 165?

Mr. PERCE. I don't have any figures?

Senator DOUGLAS. Do you have an estimate?

Mr. PERCE. No, I don't have an estimate.

Senator DOUGLAS. You don't have an estimate?

Mr. PERCE. They are handled by the man who handled those defaults.

Senator DOUGLAS. You are now the man in charge of this, aren't you?

Mr. PERCE. Yes, sir; but I haven't received the last reports.

Senator DOUGLAS. You have no idea as to how much the mortgages are in these 165 properties?

Mr. PERCE. No, sir; I don't. I'm sorry.

Senator DOUGLAS. Will you furnish those figures?

Mr. PERCE. I can get those figures for you; yes, sir.

Senator DOUGLAS. Do you know how much the insurance fund has had to pay out for each of these defaults?

Mr. PERCE. I could find out, sir.

I think the Comptroller could give you those figures.

Senator DOUGLAS. Is the Comptroller here?

Mr. PERCE. Yes.

Senator DOUGLAS. May I ask the Comptroller a question? Will you state your name, please?

Mr. THOMPSON. Lester H. Thompson.

Senator DOUGLAS. You are the Comptroller of FHA?

Mr. THOMPSON. Yes, sir.

Senator DOUGLAS. How many projects, according to your memory, have gone into default in section 608?

Mr. THOMPSON. Sir, if I can be permitted to look at my records—

Senator DOUGLAS. Do you have them here?

Mr. THOMPSON. Yes, sir.

The CHAIRMAN. Let's see, now, what are you getting for us?

Mr. THOMPSON. I would like the question restated, sir.

The CHAIRMAN. What was the question?

Senator BENNETT. The question was: How many of these projects had actually gone into default?

The CHAIRMAN. Are you able to answer that, Mr. Chappell?

Mr. THOMPSON. I can answer.

Mr. PERCE. This is Mr. Thompson, not Mr. Chappell.

The CHAIRMAN. Will you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF LESTER H. THOMPSON, COMPTROLLER, FEDERAL HOUSING ADMINISTRATION

Mr. THOMPSON. I do.

The CHAIRMAN. Thank you. You be seated there and we will be delighted to get that information.

The CHAIRMAN. The question is what?

Senator DOUGLAS. The question is: How many section 608 projects have gone into default, and how much is the total amount of the mortgages on these properties that have gone into default?

Mr. THOMPSON. Senator, just how many may be in default, I am not able to say. But I can state how many have been foreclosed and title acquired by the Commissioner and how many have been assigned to the Commissioner.

The CHAIRMAN. All right, let's ask some specific questions.

How many have been repossessed? First, let's get this: What is the total number of section 608 projects?

Mr. THOMPSON. The total number insured, sir?

The CHAIRMAN. Yes. You can get that later. We will put in the record the exact number of section 608 projects.

(The information referred to follows:)

FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C., May 3, 1954.

HON. HOMER E. CAPEHART,

*Chairman, Senate Committee on Banking and Currency,
United States Senate, Washington 25, D. C.*

DEAR SENATOR CAPEHART: During the April 29 FHA hearings you asked for the total number of projects insured under section 608 of the National Housing Act. Your question appears at page 889 of the typed transcript. A total of 7,069 projects were insured under section 608. These projects contain 469,598 units. The total of the original principal mortgages on these units was \$3,448,433,228.

Sincerely,

N, Acting Commissioner.

The CHAIRMAN. Now, how many of them have been repossessed? How many are in default?

Mr. THOMPSON. Those on which the Commissioner has acquired title, 136 projects.

The CHAIRMAN. On 136 you have acquired title?

Mr. THOMPSON. Yes.

The CHAIRMAN. Which means the Federal Government now owns them.

Mr. THOMPSON. Now owns them.

The CHAIRMAN. How many of them have been repossessed for other purposes?

Mr. THOMPSON. Now, there has been assigned to the Commissioner 106 mortgage notes.

The CHAIRMAN. 106 have been assigned?

Mr. THOMPSON. Yes, sir. And I would like to make it clear that these figures are as of February 28.

The CHAIRMAN. 1954?

Mr. THOMPSON. 1954.

The CHAIRMAN. What is the total volume involved in those 250 some projects?

Mr. THOMPSON. Total dollars?

The CHAIRMAN. Yes.

Mr. THOMPSON. In total dollars, the Commissioner's investment in these projects, \$119,340,000.

The CHAIRMAN. That is \$119 million—that means mortgages which they insured originally, which became in default, and they have reimbursed the man who bought the mortgage, is that it?

Mr. THOMPSON. That \$119 million represents the amount that the Commissioner paid to the mortgagee at the time of settlement.

The CHAIRMAN. How many more mortgages are in default that have not been repossessed? Say 90 days or 6 months or a year in default.

Mr. PERCE. I don't have that right now, but I can get it, I think.

The CHAIRMAN. Would you say that is was a sizable number or a small number?

Senator DOUGLAS. May I ask a question of the Comptroller while he is looking over these figures, Mr. Chairman: This figure of \$119 million, is that for 136 section 608 projects which have been repossessed by the Federal Government?

Mr. THOMPSON. That includes the assigned mortgages.

Senator DOUGLAS. That includes the 106 assigned also. So it applies to the total of 242?

Mr. THOMPSON. Yes, sir. It applies to the total of 273.

Senator DOUGLAS. The 273 also includes the 31 projects acquired and later sold?

Mr. THOMPSON. Yes, sir.

Senator DOUGLAS. Excuse me, Mr. Chairman.

The CHAIRMAN. Go right ahead.

Senator DOUGLAS. Would you furnish the committee with a list of these projects that the Government has taken over?

Mr. THOMPSON. Yes, sir.

(The list referred to follows:)

Federal Housing Administration Commissioner-owned projects, sec. 608, as at Feb. 28, 1954

Project No.	Project name	Location	Amount of insured mortgage	Date of foreclosure, deed in lieu, or assignment by mortgagee	Date title to project was acquired by FHA	Number of units	Commissioner's investment at date of acquisition	Commissioner's investment at Feb. 28, 1954	Net increase or decrease (-) in Commissioner's investment
082-40077	Elm Street Apartments, Inc.	Troy, Ala.	\$87,300.00	Mar. 18, 1952	July 10, 1952	12	\$83,679.19	\$86,428.00	
082-42001	Jellison Court Apartments, Inc.	Alexander City, Ala.	\$83,494.00	Feb. 27, 1951	June 1, 1951	24	176,366.50	177,670.45	
082-42121	Brumfield Street Apartment, Inc.	Troy, Ala.	111,000.00	May 28, 1952	July 16, 1952	16	105,000.94	113,718.13	
082-42025	Opp Apartments, Inc.	Opp, Ala.	80,000.00	Feb. 24, 1953	Aug. 1, 1953	8	71,013.15	84,491.26	
082-42079	Covington Court Apartments, Inc.	do.	80,000.00	do.	do.	16	74,891.25	76,401.76	
082-42142	Gault Avenue Apartments, Inc.	Fort Payne, Ala.	80,000.00	Sept. 15, 1952	Feb. 2, 1953	16	77,867.72	84,521.31	
	Total.		601,700.00			92	572,298.16	591,262.22	
129-40003	El Siglo Apartments	Tucson, Ariz.	671,500.00	Apr. 12, 1951	June 1, 1951	90	691,080.46	699,321.46	
082-40014	Cleveland Corp.	Hot Springs, Ark.	425,000.00	Nov. 22, 1949	Dec. 9, 1949	8	428,674.21	410,350.37	
082-40022	Becky-Houston Apartments	Hope, Ark.	50,000.00	Jan. 27, 1950	Aug. 9, 1950	8	50,146.81	53,039.81	
082-40028	Cleveland Corp.	Hot Springs, Ark.	142,000.00	Oct. 22, 1949	Dec. 1, 1949	16	140,497.11	135,497.94	
082-40035	Parkview Apartments, Inc.	Conway, Ark.	101,000.00	Nov. 1, 1950	July 7, 1952	16	95,342.65	105,009.11	
082-40037	College Apartments, Inc.	do.	101,000.00	do.	do.	16	95,242.21	104,268.21	
082-40040	Cleveland Corp.	Hot Springs, Ark.	105,000.00	Dec. 28, 1949	Jan. 24, 1950	12	104,312.52	102,739.16	
082-40041	do	do	105,000.00	do.	do.	12	105,165.11	102,554.17	
082-40042	do	do	105,000.00	do.	do.	12	103,463.62	101,812.02	
082-40043	Cleveland Manor	do	161,000.00	do.	do.	18	161,495.11	159,557.20	
082-40044	Rentals, Inc.	Springfield, Ark.	161,000.00	do.	do.	18	161,121.98	159,216.04	
082-42003	Malvern Housing, Inc.	Malvern, Ark.	96,000.00	June 1, 1953	Dec. 23, 1953	16	91,696.44	80,218.51	
082-42005	Houston Apartments, Inc.	Hope, Ark.	101,000.00	July 15, 1950	Sept. 1, 1950	16	97,790.47	105,003.69	
082-42007	do	do	50,000.00	July 13, 1950	Aug. 25, 1950	8	49,100.09	50,114.17	
	Total.		1,713,000.00			226	1,683,439.23	1,684,482.70	
082-40011	Deals Homes, Inc.	Gainesville, Fla.	149,000.00	Aug. 31, 1951	Oct. 10, 1951	26	140,234.28	138,822.01	-1,411.27
082-40012	Starker Enterprises, Inc.	do	173,400.00	do.	do.	26	161,349.38	158,964.02	-2,385.36
082-42037	Anderson Homes, Inc.	Jacksonville, Fla.	363,500.00	Oct. 23, 1953	Dec. 1, 1953	78	385,691.63	392,182.47	6,490.84
082-40014	High Pines Apartments	Miami, Fla.	470,000.00	May 8, 1951	July 10, 1951	50	463,149.69	466,068.49	2,918.80
082-40015	W. L. Cone Apartments, Inc.	do	144,700.00	Jan. 29, 1951	May 1, 1951	24	153,417.39	163,288.00	9,870.61
082-40016	Herman Braunstein	Coral Gables, Fla.	154,200.00	do.	Apr. 2, 1951	24	141,662.47	162,652.23	20,989.76
082-40022	Holston, Samuel C. and Elsie	Miami, Fla.	61,200.00	Apr. 13, 19	June 29, 1951	8	50,034.85	60,907.36	10,872.50

Federal Housing Administration Commissioner-owned projects, sec. 608, as at Feb. 28, 1964—Continued

Project No.	Project name	Location	Amount of insured mortgage	Date of foreclosure, deed in lieu, or assignment by mortgagee	Date title to project was acquired by FHA	Number of units	Commissioner's investment at date of acquisition	Commissioner's investment at Feb. 28, 1964	Net increase or decrease (+) in Commissioner's investment
064-40042	Mirabeau Manor, Inc.	New Orleans, La.	\$128,600.00	Feb. 15, 1961	May 1, 1961	16	\$128,677.33	\$123,651.85	\$5,274.52
064-40046	Asales Apartments, Inc.	Lafayette, La.	190,000.00	Mar. 7, 1962	Apr. 1, 1962	28	193,038.23	212,493.98	23,493.98
064-40047	Mirabeau Manor Apartments, Inc.	New Orleans, La.	120,000.00	Jan. 15, 1961	Sept. 13, 1961	16	120,340.05	121,793.01	4,441.81
064-40048	do	do	120,000.00	do	do	16	120,344.72	120,045.23	12,045.87
064-40049	do	do	120,000.00	do	do	16	120,344.72	120,045.23	9,710.51
064-40050	do	do	184,400.00	do	do	24	184,111.39	190,323.33	5,722.24
064-40051	do	do	184,400.00	do	do	24	184,091.27	203,427.51	14,395.14
064-40052	do	do	192,700.00	do	do	24	192,283.41	203,793.13	11,323.72
064-40053	do	do	162,000.00	do	do	20	161,646.45	173,457.53	13,536.13
064-42020	Swendson & Kemp, Inc.	Baton Rouge, La.	1,533,300.00	Apr. 27, 1960	Dec. 1, 1960	207	1,533,279.57	1,454,076.33	-53,671.24
064-42026	The Orelan	New Orleans, La.	2,664,000.00	Jan. 17, 1960	Mar. 1, 1963	260	2,701,912.60	2,866,105.49	184,193.89
	Total		8,913,400.00			1,126	8,855,451.59	9,113,618.98	258,167.39
023-40008	Merryknoll Manor	Attleboro, Mass.	296,400.00	Jan. 10, 1961	Mar. 16, 1961	37	293,726.60	298,701.15	15,064.45
023-42014	Hiramar Corp.	Hyannis, Mass.	904,600.00	Aug. 1, 1961	Aug. 1, 1961	120	912,810.12	933,365.05	20,557.93
	Total		1,200,000.00			157	1,196,556.72	1,232,177.50	35,622.06
065-40006	Brown Apartments, Inc.	Meridian, Miss.	142,500.00	Aug. 10, 1961	Apr. 1, 1962	17	136,928.46	156,137.01	17,208.55
065-42022	Battlefield Manor, Inc.	Jackson, Miss.	185,600.00	Mar. 31, 1962	May 1, 1962	30	183,590.44	185,997.00	2,406.15
065-42025	Raymond Road Apartment Co., Inc.	do	1,681,400.00	Nov. 15, 1961	Nov. 15, 1961	284	1,627,326.90	1,554,860.74	-72,467.26
065-42037	Meadowbrook Apartments, Inc.	Meridian, Miss.	194,200.00	July 31, 1963	Dec. 1, 1963	82	197,780.53	190,860.17	-3,180.64
	Total		2,166,700.00			383	2,107,506.44	2,067,864.51	-49,681.98
081-42065	Colonial Towers Realty Co.	Union City, N. J.	210,600.00	Sept. 16, 1953	Sept. 15, 1953	26	200,471.27	212,430.77	2,960.80
083-40023	Yanks Apartments, Inc.	Camden, N. J.	194,072.27	July 10, 1960	Feb. 26, 1964	16	131,722.23	131,877.94	85.43
	Total		394,672.27			42	341,193.79	344,288.71	3,044.93
012-40180	Richard Terrace, Inc.	Far Rockaway, N. Y.	626,100.00	Oct. 17, 1953	Jan. 1, 1953	72	593,325.15	620,255.47	26,760.32
012-42246	Grymes Hill Gardens, Inc.	Staten Island, N. Y.	3,571,700.00	Feb. 11, 1953	Feb. 11, 1953	416	3,784,437.00	3,767,339.46	-3,892.46
012-42318	Patchogue Gardens, Inc.	Patchogue, N. Y.	723,900.00	Dec. 11, 1951	Sept. 13, 1953	84	714,902.13	717,433.03	-2,578.43
013-40031	Presidential Arms Apartments	Saratoga Springs, N. Y.	386,800.00	Aug. 1, 1953	Apr. 1, 1953	44	385,077.16	355,487.03	-30,590.43
014-42006	Colonial Lawn, Inc.	Bath, N. Y.	446,000.00	Feb. 7, 1961	Apr. 2, 1961	23	448,065.16	455,842.71	7,777.55
	Total		5,794,800.00			638	5,995,127.60	5,980,487.64	-14,639.96

114-40039	do.	194,500.00	144,500.00	Nov. 20, 1951	May 1, 1952	10	190,861.91	139,124.09	-1,707.22
115-42032	do.	244,700.00	244,700.00	do.	do.	18	141,010.87	135,913.84	-5,106.08
131-42033	do.	700,500.00	700,500.00	Oct. 1, 1952	Nov. 28, 1953	32	251,526.57	242,497.85	-9,028.72
	Beaumont, Tex.					150	606,564.94	671,079.55	5,114.61
Total		1,513,800.00				258	1,457,871.24	1,456,713.15	-1,158.09
051-40033	Jefferson Apartments Corp.	153,000.00	153,000.00	Mar. 28, 1953	May 1, 1953	20	140,720.82	142,887.99	2,267.17
051-40079	Glenwood Apartment Corp.	801,000.00	801,000.00	Sept. 18, 1952	Nov. 1, 1952	100	777,995.55	815,752.16	38,756.61
051-42031	Lewis Road Corp., section 1	899,493.00	899,493.00	Feb. 10, 1953	Mar. 10, 1953	90	639,375.74	647,485.63	18,109.89
051-42032	do.	899,493.00	899,493.00	do.	do.	123	899,584.59	885,173.53	-25,238.94
051-42033	Lewis Road Corp., section 3	839,300.00	839,300.00	do.	do.	114	804,214.60	827,953.55	23,738.95
051-42034	Lewis Road Corp., section 4	834,000.00	834,000.00	Apr. 10, 1953	May 1, 1953	112	81,284.19	842,537.16	41,252.97
051-42035	Lewis Road Corp., section 5	834,000.00	834,000.00	do.	do.	85	638,374.67	658,783.73	20,412.06
051-42036	do.	834,000.00	834,000.00	do.	do.	110	838,268.11	768,095.22	-70,181.79
051-42040	do.	920,700.00	920,700.00	do.	do.	124	924,787.63	862,597.98	-62,189.65
051-42041	do.	981,000.00	981,000.00	do.	do.	132	946,676.86	921,204.15	-25,472.70
051-42042	do.	238,300.00	238,300.00	do.	do.	134	1,022,589.61	943,949.61	-78,640.00
053-40027	Cumberland Housing Corp.	100,000.00	100,000.00	Oct. 26, 1952	Nov. 20, 1953	32	233,307.65	238,163.40	4,855.75
053-42035	Charles D. and Mary S. Smith	358,300.00	358,300.00	May 15, 1951	Aug. 1, 1952	10	95,552.71	100,201.89	4,649.18
Total		3,054,000.00				45	331,369.76	344,395.34	13,025.58
117-40046	College Homes, Inc.	194,000.00	194,000.00	Oct. 24, 1949	Sept. 3, 1952	24	190,997.52	200,511.90	9,514.37
117-40053	Parkview Apartments, Inc.	1,858,000.00	1,858,000.00	Aug. 28, 1951	Aug. 30, 1951	244	1,887,310.79	1,776,882.99	-90,427.80
117-40054	College Homes, Inc.	170,000.00	170,000.00	Feb. 11, 1950	Sept. 3, 1952	20	169,124.19	174,205.48	5,081.29
117-40055	do.	177,000.00	177,000.00	do.	do.	20	178,737.70	184,154.79	5,417.09
117-42031	Elk City Housing Co.	48,000.00	48,000.00	Mar. 16, 1953	Apr. 22, 1953	8	45,874.64	49,525.10	3,650.46
117-42032	do.	48,000.00	48,000.00	do.	do.	8	45,651.97	50,883.90	5,231.93
117-42033	do.	48,000.00	48,000.00	do.	do.	8	45,729.05	50,645.98	4,916.93
118-40014	A and B Apartments	114,000.00	114,000.00	July 31, 1951	Apr. 1, 1953	16	109,134.65	108,133.22	-1,001.43
118-40023	Clearview Apartments, Inc.	197,000.00	197,000.00	Aug. 10, 1949	Aug. 11, 1949	32	196,325.37	208,422.45	12,097.11
118-40030	Ossage Drive Apartments	200,000.00	200,000.00	May 30, 1953	Aug. 10, 1953	26	184,740.68	181,567.70	-3,172.98
Total		3,054,000.00				406	3,031,626.56	2,984,463.62	-47,162.94
064-40013	Highland Park Apartments, Inc.	688,000.00	688,000.00	July 31, 1950	Feb. 10, 1954	77	675,327.75	686,035.05	10,707.31
064-42032	Dillwood Apartments, Inc.	184,700.00	184,700.00	Dec. 27, 1951	May 15, 1953	32	183,920.96	184,700.00	780.03
064-42050	Edward Arms Apartments	423,435.00	423,435.00	Apr. 24, 1953	Mar. 2, 1953	50	423,323.24	431,568.36	8,245.12
064-42066	Cannon-Dova Apartments	325,100.00	325,100.00	Dec. 1, 1953	Jan. 4, 1954	78	322,226.78	328,234.55	6,007.77
064-42074	Cherokee Heights, Inc.	426,000.00	426,000.00	May 11, 1953	Nov. 2, 1953	100	425,782.96	427,568.53	1,785.57
064-42081	Irene Apartments, Inc.	236,100.00	236,100.00	May 17, 1953	do.	50	236,504.98	234,274.81	-2,230.17
064-42082	Brookside Court, Inc.	307,600.00	307,600.00	Feb. 13, 1953	July 31, 1953	60	364,680.45	374,960.38	10,300.83
064-42088	Booker Washington Apartments, Inc.	100,900.00	100,900.00	Jan. 29, 1952	July 7, 1952	25	97,750.30	104,943.36	7,193.06
Total		2,755,151.00				472	2,726,528.42	2,772,316.06	45,787.64

1 Mortgage acquired by assignment.
2 Deed in lieu of foreclosure.

HOUSING ACT OF 1954

Federal Housing Administration Commissioner-owned projects, sec. 508, as at Feb. 28, 1954—Continued

Project No.	Project name	Location	Amount of insured mortgage						
051-42051	Roberts Allen Apartments.....	Narrows, Va.	\$210,000.00	Oct. 30, 1952	Feb. 2, 1953	30	\$204,790.16	\$200,142.08	
051-42055	Peakland Apartments.....	Bedford, Va.	72,000.00	Mar. 31, 1953	June 6, 1953	12	67,701.33	75,796.45	
051-03865	Seven Oaks Apartments.....	Newport News, Va.	932,000.00	Apr. 25, 1946	July 1, 1946	230	910,701.83	674,828.78	
	Total.....		9,784,900.00			1,408	9,619,185.09	9,566,732.13	
127-40001	Lake Huron Heights, Inc.....	Seattle, Wash.	4,143,400.00	June 10, 1949	Aug. 15, 1950	544	4,104,084.12	4,320,899.31	
	Total, sec. 608 (136 projects).....		54,628,625.27			7,571	54,126,465.14	54,855,387.92	

1 Mortgage acquired by assignment.
2 Deed in lieu of foreclosure.

HOUSING ACT OF 1954

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Project No.	Project name	Location	Amount of insured mortgage	Date of assignment of note to FHA	Number of units	Cost to Com-misioner (de-bentures and cash adjust-ment)	Commissioner's investment at Feb. 28, 1954	Net increase or decrease (-) in Com-misioner's investment
603-40046	Hillside Apartments Co., Inc.	Gadsden, Ala.	\$692,000.00	Oct. 28, 1949	90	\$670,329.59	\$597,817.87	-\$78,511.72
002-42049	Kentucky Garden Apartments, Inc.	Birmingham, Ala.	117,400.00	Sept. 8, 1953	39	109,321.40	109,676.40	557.00
	Total		809,400.00		120	780,650.99	707,496.27	-77,954.72
123-40009	Vinton Hammels Apartments, Inc.	Phoenix, Ark.	183,800.00	Jan. 14, 1950	24	181,023.60	162,186.70	-18,836.96
123-40010	High Mount Apartments, Inc.	do	181,800.00	do	24	181,023.66	162,186.19	-18,838.47
129-40008	do	Tucson, Ariz.	77,700.00	May 11, 1950	12	75,771.12	67,263.91	-8,507.21
139-40009	do	do	77,700.00	do	12	75,737.92	67,258.26	-8,479.66
	Total		523,000.00		72	513,556.36	458,694.05	-54,062.30
083-40024	Gurdon Housing, Inc.	Gurdon, Ark.	46,000.00	May 1, 1951	8	44,023.66	42,599.34	-1,424.32
123-40007	Ridgewood Heights Manor Second	Long Beach, Calif.	241,005.00	Oct. 27, 1950	40	231,578.15	205,573.53	-26,004.52
129-40009	Ridgewood Heights Manor No. 2	do	47,910.00	do	6	46,102.62	40,899.22	-5,203.40
123-40013	Ridgewood Heights Manor No. 3	do	141,788.00	do	24	136,063.52	120,771.98	-15,831.54
123-40014	Ridgewood Heights Manor No. 4	do	162,954.00	do	28	157,026.93	138,792.10	-18,238.83
123-40015	Ridgewood Heights Manor No. 5	do	141,768.00	do	24	136,580.70	120,750.17	-15,830.53
123-40016	Ridgewood Heights Manor No. 6	do	141,768.00	do	24	136,580.86	120,750.16	-15,84.70
123-40036	Beverly Bldg. Corp.	Los Angeles, Calif.	72,400.00	May 1, 1952	12	67,357.69	65,948.09	-1,409.60
123-40129	Trager Manor, Inc.	do	59,925.00	Oct. 16, 1951	8	53,029.21	50,528.70	-2,496.51
123-40130	do	do	58,035.00	do	8	51,742.75	49,272.68	-2,470.07
123-40131	do	do	59,525.00	do	8	53,092.53	50,538.33	-2,554.20
123-40201	Carnar Apartments	Long Beach, Calif.	97,677.00	do	17	87,041.15	83,220.37	-3,820.78
123-40212	Knolls Apartments, Inc., No. 1	do	73,508.00	Nov. 3, 1950	12	71,023.08	67,190.72	-3,832.36
123-40213	Knolls Apartments, Inc., No. 5	do	148,614.00	do	24	142,543.69	127,447.85	-15,095.75
123-40214	Knolls Apartments, Inc., No. 2	do	131,835.00	do	20	126,746.88	113,064.52	-13,682.36
123-40215	Knolls Apartments, Inc., No. 3	do	150,412.00	do	24	144,588.66	128,991.10	-15,597.50
123-40221	Knolls Apartments, Inc., No. 4	do	73,608.00	do	12	70,730.90	68,144.44	-2,586.46
123-40252	Shirley Apartments	Downey, Calif.	198,995.00	Oct. 16, 1951	30	184,027.95	171,838.08	-12,189.89
123-40370	Charlemagne Apartment	Long Beach, Calif.	96,700.00	do	16	88,904.24	82,065.32	-6,838.92
123-40416	Sancisco, Inc.	Santa Ana, Calif.	187,400.00	Nov. 1, 1950	32	178,293.61	160,684.55	-17,609.06
123-42101	Palos Verdes Apartment	Torrance, Calif.	1,269,500.00	Nov. 7, 1951	196	1,238,824.01	1,132,157.12	-106,666.89
	Total		3,554,973.00		527	3,399,796.13	3,088,109.77	-311,566.36
003-40059	Posey Apartments, Inc.	Tallahassee, Fla.	70,300.00	July 1, 1953	12	73,310.00	71,699.23	-1,740.77
003-42052	Park Apartments, Inc.	do	185,300.00	July 15, 1953	24	174,332.82	181,015.56	6,682.74
006-40005	Parkview Apartments, Inc.	Fort Lauderdale, Fla.	418,700.00	Aug. 18, 1952	00	395,000.73	389,148.50	-6,852.23
006-40031	Marla Barreto	Coral Gables, Fla.	166,600.00	July 15, 1953	24	152,392.11	157,528.74	5,136.63

Federal Housing Administration mortgage notes assigned to the Commissioner, sec. 608, as at Feb. 28, 1954—Continued

Project No.	Project name	Location	Amount of insured mortgage	Date of assignment of note to FHA	Num-ber of units	Cost to Commissioner (development and cash adjustment)	Commissioner's investment at Feb. 28, 1954	Net increase or decrease in Commissioner's investment
005-40057	Knight Manor, Inc. No. 1	Miami, Fla.	\$1,334,900.00	Nov. 15, 1951	220	\$1,272,653.34	\$1,220,261.54	-\$52,401.80
005-40058	Knight Manor, Inc. No. 2	do	815,800.00	Nov. 1, 1951	140	777,802.07	745,739.16	-\$32,062.91
005-40074	San Isidro Apartments Development Corp.	Coral Gables, Fla.	61,200.00	Apr. 13, 1952	8	59,851.80	65,445.92	5,594.12
005-40075	Riviera Apartment Development Co.	do	57,800.00	do	8	56,903.01	61,902.16	5,299.15
005-40080	Salad Palm Court No. 1, Inc.	Miami, Fla.	1,232,800.00	July 31, 1953	145	1,177,651.87	1,217,540.71	39,888.84
005-40081	Salad Palm Court, Inc.	do	1,763,700.00	July 20, 1953	220	1,696,947.22	1,749,859.05	51,211.84
005-40082	E. A. Kandler, Inc.	North Miami, Fla.	125,400.00	Oct. 30, 1950	16	120,817.79	133,947.80	13,130.01
005-40083	Kundliger Apartments, Inc.	do	125,400.00	Dec. 1, 1950	16	110,526.25	126,141.27	6,612.02
005-40085	Helma Palm Court, Inc.	do	125,400.00	Oct. 8, 1951	16	120,056.80	115,810.90	-4,239.84
005-40090	First University Corp.	Miami, Fla.	148,000.00	Nov. 3, 1952	20	143,348.09	141,635.03	-1,709.40
005-40170	Third University Corp.	do	145,900.00	Nov. 14, 1951	20	142,492.00	138,339.00	-4,153.00
005-40171	Fourth University Corp.	do	147,700.00	do	20	144,250.05	140,048.53	-4,201.52
005-40172	Bath Apartments, Inc.	do	110,300.00	Aug. 15, 1952	16	112,313.96	109,042.64	-3,271.32
005-42002	Sunset Gardens	South Miami, Fla.	445,500.00	Nov. 13, 1950	56	435,921.17	424,428.99	-10,892.19
005-42021	Laurel Court, Inc.	Lakeland, Fla.	624,200.00	Oct. 1, 1952	120	610,116.61	613,133.31	3,016.70
007-42024	Total		8,228,900.00		1,190	7,893,398.22	7,805,344.01	15,946.69
001-40030	Glenwood Apartments, Inc.	Rome, Ga.	666,000.00	Mar. 11, 1950	74	630,323.11	612,031.73	-27,291.38
001-42002	Savannah Apartments, Inc.	Savannah, Ga.	1,975,000.00	June 13, 1952	224	1,954,462.77	1,884,590.78	-69,811.99
124-40001	Total		2,641,000.00		308	2,585,785.88	2,495,582.51	-97,203.37
124-40001	Boise Hills Village, Inc.	Boise, Idaho	1,027,200.00	June 30, 1950	202	1,597,847.36	1,650,413.40	52,566.04
124-42001	Pocahontas Heights Corp.	Pocatello, Idaho	848,500.00	July 2, 1951	100	821,221.54	811,493.03	-9,728.51
079-00004	Total		2,473,700.00		302	2,419,068.90	2,461,906.43	42,840.53
102-42016	Chas. Field Gardens Apartments, Inc.	Fairfield, Ill.	415,700.00	Feb. 13, 1953	48	386,054.01	401,693.54	15,279.03
102-42016	Loganston Development Corp.	Wichita, Kansas	1,399,500.00	Jan. 15, 1953	160	1,323,211.96	1,282,451.17	-40,760.79
102-42021	Washington Apartments, Inc.	Junction City, Kans.	131,000.00	Dec. 28, 1953	16	113,612.07	116,161.68	2,552.01
102-42023	do	do	90,344.00	Jan. 29, 1954	12	86,432.50	87,618.95	1,186.05
081-40024	Total		1,611,414.00		186	1,403,257.13	1,426,341.11	-30,822.72
081-40024	Michael Housing, Inc.	New Orleans, La.	608,800.00	Apr. 28, 1953	95	510,808.40	511,408.78	-5,089.62
081-40027	Park Terrace, Inc.	do	1,110,000.00	do	135	1,091,808.27	1,088,000.00	-3,808.27
081-40028	Lebanon Homes, Inc.	do	892,614.00	do	66	840,640.46	840,290.04	-350.42

	Total.	Baltimore, Md. Manchester, N. H.	Camden, N. J. Delaware Township, N. J. Vineland, N. J. Bridgeton, N. J. Landis Township, N. J. Pittman, N. J. Salem, N. J.	7,603,200.00	890	7,315,451.00	At Union, Mich. Mo.	—83,932.50
Greenwich Garden Apartments, Inc.	440,400.00				60	399,709.48	399,448.82	6,730.34
Garden Homes, Inc.	1,252,900.00				164	1,207,771.17	1,296,941.11	87,669.94
Higland Apartments, Inc.	220,000.00				28	212,238.32	197,285.33	—14,922.90
Walworth Park Apartments, Inc.	1,903,300.00				208	1,842,407.30	1,781,347.08	—61,120.22
Spiagel Apartments, Inc.	388,000.00				48	368,410.59	377,728.03	9,318.03
Glenn Park Apartments, Inc.	930,000.00				112	898,783.02	907,120.84	8,337.82
Earl Apartments, Inc.	889,500.00				108	845,076.90	872,231.57	27,154.67
Grandview Manor Apartments	600,000.00				72	567,315.83	570,822.09	3,506.26
Yorke Manor, Inc.	610,900.00				84	596,701.34	606,783.32	10,091.98
Total.	5,541,400.00				660	5,330,993.90	5,313,399.15	—17,664.45
Central Gardens Unit I	2,858,000.00				316	2,739,704.99	2,773,001.09	33,299.10
Rid and R. Co., Inc.	576,000.00				69	595,791.53	632,706.03	36,914.52
Middlesex Gardens Apartments.	316,900.00				40	311,358.45	330,166.53	—11,191.92
Total.	3,751,000.00				425	3,645,854.97	3,735,876.67	49,021.70
Forest Apartment, Inc.	813,600.00				88	778,405.05	748,273.63	—30,131.42
Harvard Apartments, Inc.	1,400,000.00				172	1,407,425.40	1,427,690.03	—69,938.77
Thompson Apartments, Inc.	184,000.00				32	177,584.32	181,515.00	6,928.72
Total.	1,784,000.00				204	1,675,112.12	1,612,114.07	—62,988.08
Olympia Development Co.	176,932.00				21	167,618.89	161,600.71	—6,018.18
Sams Apartments, Inc.	197,600.00				26	190,959.08	201,237.27	10,278.19
Rock Hill Apartments, Inc.	423,332.00				50	412,448.31	435,894.68	23,441.37
Granuburg Apartments, Inc.	423,199.00				50	412,883.25	437,714.19	24,830.91
Sumter s. c.	423,800.00				50	407,227.01	430,586.28	23,359.27
Anderson Apartments, Inc.	423,872.00				50	414,214.78	434,785.26	20,570.48
Charlie Williams Gardens, Inc.	191,310.00				30	184,439.75	193,431.69	8,991.84
Greenwood s. c.	573,800.00				96	556,412.22	564,004.17	7,591.95
Beechside Apartments, Inc. (Grayton Manor).	193,264.00				32	181,110.10	191,082.51	9,972.71
Telson Apartments, Inc.	200,400.00				40	204,703.87	201,237.69	—3,466.18
Murch Apartments, Inc.	199,900.00				30	192,047.21	198,197.12	6,149.91
The Joseph B. Williams, Inc.	3,330,267.00				501	3,267,345.71	3,383,066.36	115,720.65
Total.	3,330,267.00				501	3,267,345.71	3,383,066.36	115,720.65

HOUSING ACT OF 1954

Federal Housing Administration mortgage notes assigned to the Commissioner, sec. 608, as at Feb. 28, 1954—Continued

Project No.	Project name	Location	Amount of insured mortgage	Date of assignment note to FHA	Number of units	Cost to Commissioner (disbursement and cash adjustment)	Commissioner's investment at Feb. 28, 1954	
113-2017	Plaza Apartments A, Inc.	Lubbock, Tex.	\$213,100.00	Jan. 20, 1954	27	\$196,957.20	\$200,555.32	53,695.12
113-2018	Plaza Apartments B, Inc.	do.	142,200.00	do.	18	130,801.63	133,200.08	2,396.25
113-2019	Plaza Apartments C, Inc.	do.	213,100.00	do.	27	196,700.31	194,204.55	3,585.24
113-2020	Plaza Apartments D, Inc.	do.	173,700.00	Dec. 14, 1953	22	159,010.51	161,940.52	2,930.01
	Total		742,100.00		84	682,481.65	695,001.27	12,519.62
051-40043	Oakwood Apartments, Inc.	Front Royal, Va.	121,254.00	Sept. 6, 1951	20	117,650.05	115,556.16	-1,993.89
051-40044	Cherrywood Apartments, Inc.	do.	121,254.00	do.	20	117,650.38	117,344.20	-255.18
051-40045	Applewood Apartments, Inc.	do.	121,254.00	do.	20	117,359.67	115,831.51	1,471.94
051-42025	River Drive Apartments, Inc.	Newport News, Va.	1,684,800.00	July 15, 1950	208	1,685,543.30	1,490,136.33	-193,406.97
	Total		2,048,652.00		268	2,018,052.30	1,850,868.20	-167,184.10
130-42018	Cathedral Building Corp.	Sitka, Alaska	439,500.00	June 1, 1953	37	426,971.84	439,842.74	12,870.90
056-42002	Rio Piedras Darlington, Inc.	Rio Piedras, P. R.	1,046,000.00	June 15, 1953	122	1,023,100.61	1,039,910.20	36,809.59
056-42003	Ponce Darlington, Inc.	Ponce, P. R.	967,100.00	do.	122	945,996.77	979,860.36	33,863.59
056-42004	Mayaguez Darlington, Inc.	Mayaguez, P. R.	970,100.00	do.	122	948,771.15	982,997.21	34,226.06
056-42005	Garden Corp.	Ponce, P. R.	1,271,400.00	do.	240	1,236,436.29	1,282,962.30	46,526.01
056-42006	Waylyn Corp.	do.	1,271,400.00	do.	240	1,236,436.29	1,282,962.30	46,526.01
056-42007	Hill Corp.	do.	1,271,400.00	do.	240	1,236,436.29	1,282,962.30	46,526.01
056-42008	Oklahoma Corp.	Mayaguez, P. R.	1,324,400.00	do.	250	1,298,480.55	1,345,434.90	46,954.35
056-42024	Piedmont Corp.	do.	1,324,400.00	do.	250	1,298,480.55	1,345,434.90	46,954.35
	Total		9,446,200.00		1,586	9,233,278.50	9,568,624.47	335,345.97
	Total, sec. 608 (106 assigned notes)		57,767,268.90		7,763	55,660,267.65	55,594,595.77	-194,011.86

HOUSING ACT OF 1954

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Project No.	Project name	Location	Amount of insured mortgage	Date of foreclosure or assignment by mortgagee	Date title to project acquired by FHA	Number of projects	Number of units	Date of sale	Sale price	Cost of projects sold Feb. 28, 1954	Net profit (or loss) to war housing insurance fund
002-40025	Cleveland Apartments, Inc.	Bessemer, Ala.	\$918,400	Jan. 30, 1951	Apr. 5, 1953	1	66	Feb. 10, 1954	\$940,500	\$940,500	0
002-42019	Sullivan Development Co., Inc.	Tuscaloosa, Ala.	102,800	Oct. 12, 1951	Nov. 1, 1951	1	30	Feb. 21, 1954	75,275	97,659	-\$22,384
002-40009	Meadows Apartments	Tuxarkana, Ark.	305,000	June 15, 1950	June 15, 1950	2	44	Oct. 31, 1951	361,111	354,912	6,199
40003 and 122-40191 through 122-40198	Marine View	San Pedro, Calif.	{ 588,200 916,622	Dec. 13, 1949 June 1, 1949	Feb. 8, 1950	10	208	Dec. 10, 1953	1,423,000	1,419,689	3,311
000-50010	Mayfair Gardens, Inc.	Washington, D. C.	1,140,905	Mar. 28, 1944	June 15, 1944	1	591	June 15, 1944	930,600	925,272	11,328
000-40025	1500 1st Ave. (Freelee Construction Co.),	Miami, Fla.	58,400	June 30, 1950	Nov. 21, 1950	1	8	Aug. 7, 1952	64,111	62,345	1,766
000-42000	Carle Court	do.	145,359	Oct. 23, 1950	Aug. 16, 1951	1	20	Nov. 1, 1952	161,000	157,499	3,501
02-40002	Blue Fountain Apartments (S. O. S. Development Corp.),	Wichita, Kans.	139,800	May 31, 1950	July 31, 1950	1	19	Dec. 12, 1951	144,218	135,356	8,862
102-40015	Fairmont Park	do.	143,900	do.	do.	1	19	do.	140,291	140,063	9,228
102-40021	Evmore Apartments	do.	141,400	do.	do.	1	19	do.	137,711	138,866	9,115
022-00008	Brunswick Apartments, Inc.	Brunswick, Maine	381,000	Mar. 31, 1949	Feb. 10, 1951	1	90	Nov. 21, 1953	487,000	468,672	18,328
022-60010	Mountain View Apartments, Inc.	Presque Isle, Maine	160,000	Feb. 28, 1949	Feb. 23, 1951	1	36	do.	130,000	150,088	-20,088
022-60014 and 022-60015	Lindsay Construction, Inc.	Portland, Maine	79,000	May 15, 1951	Apr. 11, 1953	2	17	do.	70,000	60,022	978
022-60016	Augusta Homes, Inc.	Augusta, Maine	190,000	Sept. 14, 1950	Dec. 1, 1950	1	36	do.	178,000	173,504	4,496
012-00010	Winhill, Inc.	Niagara Falls, N. Y.	170,000	June 16, 1943	Nov. 13, 1943	1	42	Dec. 3, 1943	168,685	170,194	-10,509
053-00002	Cape Fear Housing Corp.	Washington, N. C.	1,670,500	Dec. 2, 1949	Dec. 28, 1949	1	500	Apr. 15, 1953	1,570,100	1,532,594	37,506
013-00052 and 013-00053	Elcan Avenue (Baker Bldg. Co.),	Cincinnati, Ohio	18,039	June 8, 1950	Nov. 1, 1950	2	24	Jan. 17, 1951	16,000	11,254	4,746
117-00053	Alhita Apartments (Figuera Apartments, Inc.),	Seminole, Okla.	55,000	July 12, 1950	Sept. 8, 1950	1	8	Apr. 21, 1953	44,000	56,215	-12,215
051-42039	Warwick Gardens	Newport News, Va.	2,025,200	Nov. 23, 1950	Feb. 1, 1951	1	293	Dec. 10, 1951	2,040,000	1,967,694	72,306
	Total		9,134,556			31	2,105		9,106,572	8,980,006	126,550

1 Deed in lieu of foreclosure.
2 Mortgage note acquired by assignment.

Senator DOUGLAS. I think it would be very interesting to compare a list of projects which have been taken over by the Government, with the list which has been submitted by the Commissioner of Internal Revenue, to see whether the Federal Government now holds some of these upon which large profits were made.

The CHAIRMAN. That would be very interesting.

Mr. THOMPSON. Senator Douglas, you asked me for a list in default. You simply mean those that have been acquired or assigned to the Commissioner?

Senator DOUGLAS. Yes.

The CHAIRMAN. But you don't know how many are in default at the moment, which have not been reassigned to the Commissioner, do you.

Mr. THOMPSON. If I can have a moment to look at my papers, I think I have a copy here.

The CHAIRMAN. You go ahead and give us the number that are in default but have not yet been assigned back to the Commissioner.

Senator PAYNE. Mr. Chairman, while the Comptroller is checking that, would it be possible for me to ask Mr. Greene a question?

The CHAIRMAN. Yes; if Mr. Greene cares to answer it.

Senator PAYNE. You can answer it right there, Mr. Greene.

Mr. GREENE. Glad to do it, sir.

Senator PAYNE. Mr. Greene, you were aware of this law that I referred to previously, Public Law 394, that went into effect December 27, 1947?

Mr. GREENE. Yes.

Senator PAYNE. Were you then Commissioner?

Mr. GREENE. No. What is the date of that?

Senator PAYNE. 1947.

Mr. GREENE. No, I was not Commissioner at that time. I was Deputy Commissioner.

Senator PAYNE. Let me ask you this: As Deputy Commissioner, did you have the responsibility for delegating authority of the provisions of laws enacted by the Congress to specific agencies within the FHA?

Mr. GREENE. My responsibility, Senator, was to assist the Commissioner in all matters.

Senator PAYNE. Do you have any recollection, Mr. Greene, as to who was delegated this responsibility?

Mr. GREENE. With respect to the cost?

Senator PAYNE. Yes.

Mr. GREENE. Yes, sir. That was handled both by the Administrative Section and the Underwriting Division.

Senator, may I say that what the law says about that was done precisely by the FHA. That calls for making every effort in estimating costs to see that our estimates are as near to the actual cost as possible.

Senator PAYNE. How do you ever know what the actual costs are, if the agency, as I understand from your previous testimony, never makes an audit or checks upon what the actual costs were?

Mr. GREENE. There is a little difference there, which I think I can explain to you, Senator.

In making our estimates of cost, we do those by a field examination of what the costs actually are in the field, both for labor and materials, and it is on that basis. Now, our cost estimates were never based upon

the actual costs of a specific case, but the actual costs would have to be made in order to construct that job. When the instruction came out—I do not have the records available, but I am certain that the underwriting letter went out to the field, ordering them to do that more closely than they did before with respect to getting more actual cost estimates.

Senator PAYNE. Mr. Chairman, if possible I would like to have the staff secure, if they can, the copy of the administrative orders that were issued by the Administrator in connection with the provisions of this law, the details that went into them.

The CHAIRMAN. Without objection, that will be done.

Senator PAYNE. Thank you, sir. (See p. 1967.)

Mr. THOMPSON. In answer to your question on the default status, sir, on March 31, 1954, there was—

The CHAIRMAN. Mr. Perce, let me ask you this question: When did the section 608 projects start paying interest and amortization on a loan?

Mr. PERCE. Normally, about a month after it was completed.

The CHAIRMAN. Normally a month after it was completed?

Mr. PERCE. Yes, sir. Amortization is supposed to commence, according to a small job, not later than the 12th month.

The CHAIRMAN. And when do they start paying their interest?

Mr. PERCE. They start paying their interest from the very day they borrow the money, on the outstanding balances paid to the mortgagee. If they borrow \$100,000, and had it for a month, they would pay interest for a month. Then they pay interest up to about a month after the job is completed, and then they start the amortization, on a level basis, so much a month.

The CHAIRMAN. Rumors come to us that you give them 18 months.

Mr. PERCE. I think we gave them 18 months, and once in a while it was extended if the job wasn't completed.

The CHAIRMAN. 18 months after it was finished, 18 months after the commitment was issued, is that right?

Mr. PERCE. Yes. The commitment requires that the amortization should start not later than the first day of the 18th month, on not over \$200,000.

The CHAIRMAN. So, it isn't 30 days after completion—it is 18 months after the commitment is made. If the job was completed in 6 months, they would have a year in which they would make no payments?

Mr. PERCE. That could be so, yes, sir.

The CHAIRMAN. That was the point.

Mr. PERCE. The field office is supposed to figure about how long it is going to take to complete the job. Now, they make a right guess or give them a wrong guess.

The CHAIRMAN. Have you the answer to that question, now, Mr. Thompson?

Mr. THOMPSON. Yes, sir. The projects in default as of March 31, 1954, 38 of them totaling 3,649 units.

The CHAIRMAN. Thirty-eight projects in default?

Mr. THOMPSON. Thirty-eight projects.

The CHAIRMAN. How much in default? How many months? Maybe you don't know.

Senator DOUGLAS. This is in addition to the 273.

Mr. THOMPSON. That have been acquired.

Senator DOUGLAS. That have been acquired. How many units did you say?

Mr. THOMPSON. 3,649 units.

Senator DOUGLAS. 3,649?

Mr. THOMPSON. 3,649.

Senator DOUGLAS. A normal figure, I suppose, is roughly around \$10,000 a unit, isn't it? That is a rough, general average.

Mr. PERCE. They are not supposed to exceed \$8,100.

Senator DOUGLAS. I know, but in practice, isn't it roughly around—

Mr. PERCE. That, I couldn't say, sir.

Senator DOUGLAS. Assuming it is \$8,100, that would be approximately \$29 million. And if it is \$10,000, it would be approximately \$36 million, in addition.

Do you have a further list of "soft" projects, that look as though they are going to go sour?

Mr. THOMPSON. This is our current data, as of March 31, 1954.

The CHAIRMAN. Mr. Thompson, are you just the auditor for the section 608 projects?

Mr. THOMPSON. No, sir, I am the comptroller of the Federal Housing Administration, in charge of the general records of the Administration.

The CHAIRMAN. I see. You are the comptroller. I don't suppose you—I would like to ask Mr. Greene, if I may—is Mr. Greene still here?

Mr. Greene, I have a letter here from a blind man in Tennessee, who was complaining about a project. I am going to read the letter in a minute. But he lived in Tennessee, and a salesman came along and sold him—he sends the copy of the contract—sold him \$900 worth of—I can't quite read what it was. It doesn't make any difference. And it was financed in a Pittsburgh bank.

Now, my question is: How widespread was this selling something in Tennessee and financing it in a bank 2 or 3 States away? That is under title I.

Mr. GREENE. Senator, I believe Mr. Frentz could tell you that.

The CHAIRMAN. Are you here, Mr. Frentz?

Mr. FRENTZ. Yes, sir.

The CHAIRMAN. How widespread would that be, Mr. Frentz?

Mr. FRENTZ. Sir, are you sure that is an FHA loan? I do not mean to be facetious.

The CHAIRMAN. Let's read the letter. Maybe I am wrong. It is addressed to the Senate Banking and Currency Committee, Hon. Homer Capehart, chairman, dated April 16, 1954.

I am a blind man. Our family has always worked hard to try to earn an honest living. I notice that your committee is starting an investigation of the FHA. I have a matter that I would like right much to have looked into.

About 2 years ago, two men came to our place and said that they were doing some advertising work for a northern insulating company, and that they had been looking the community over for the past 2 or 3 days to find an ideal place to do some advertising, and they had decided on my house, and for that reason, they were willing to insulate my house for about half price.

They also told me that the work was guaranteed for life and they would give me a certificate when the work was done, to that effect. I was also supposed to have life insurance, that in the event of my death, there would be nothing

more to pay. But I have never received anything except the original contract which I am enclosing for your information.

I will thank you if you will be so kind as to return the contract when it has served your purpose. They claim that one of the men, the one that signed the contract, was a representative of the bank where they would get the FHA loan. They got the loan from the Colonial Trust Co., of Pittsburgh, Pa. I have been paying on this loan for about 2 years and still have better than \$300 to pay.

They told me that the material they used was very expensive, but I have since found that the same material can be bought in the open market for around \$18 per hundred square feet, and this cost me nearly \$60 per hundred square feet, installed, and two men did the job in less than 1½ days.

This seems to me to be a clear case of misrepresentation and extortion. It may be that I am starting at too high an—

I don't know what that is—

If that is the case I will thank you right much if you will turn the letter over to the proper department.

Thank you for your interest in the welfare of the American people.

The contract for \$900 is made out to John F. Tipton and his wife. Now, this concerned—the dealer in this instance was in Tennessee, but the bank was in Pittsburgh. How widespread was that, do you know?

Mr. FRENTZ. First of all, I have no way of telling, myself, whether or not that is an FHA loan. We can check—I say “we” in the past tense—FHA can check their loan records and perhaps endeavor to identify that, as to whether it was actually an FHA loan.

Now, assuming, sir, that it is an FHA loan, I know a little bit about the Colonial Trust Co.'s operation in Pittsburgh, and I question whether they go that far away to make a loan.

The CHAIRMAN. You think this blind man would just have thought up the name Colonial Trust Co. in Pittsburgh in a dream?

Mr. FRENTZ. I don't know how that would occur.

The CHAIRMAN. I don't think he could dream that up.

Mr. FRENTZ. I agree on that, and I have no idea how that occurred.

We, in FHA, have a policy that every lender should stay within the area that he can properly service and handle these loans. There is no rule in the FHA, up to the time that I—

The CHAIRMAN. What we are trying to find out is just how widespread this title I loan situation is, loans that were made three or four or five hundred miles away from the bank. I mean, why would a Pittsburgh bank be financing title I loans in Tennessee?

Mr. FRENTZ. That, I cannot explain.

The CHAIRMAN. Has there been much of it, to your knowledge?

Mr. FRENTZ. I would say very, very small, if there is going, say, from Pittsburgh to Tennessee, I would say that is the only case. Now, I can be wrong, because there were 2 million loans last year, and there could be a handful.

The CHAIRMAN. You are familiar with the Colonial Trust Co.?

Mr. FRENTZ. Just as a general operation.

The CHAIRMAN. As having handled a lot of loans?

Mr. FRENTZ. I believe they have had a fair volume of loans, and I believe their record is very good.

The CHAIRMAN. Would the records of FHA show how widespread their loans are?

Mr. FRENTZ. Yes; they would.

The CHAIRMAN. Your records over here?

Mr. FRENTZ. Not my records.

The CHAIRMAN. I mean FHA. Would that be available for us at 3 o'clock this afternoon or 2 o'clock; would that be available?

Mr. FRENTZ. May I ask you to direct the question—

The CHAIRMAN. I will. You are not with them any more, but is it in such shape that it could be over here at 2 o'clock?

Mr. FRENTZ. Let me explain what it is. They make a loan and furnish it to the FHA in the form of a loan report. All those loan reports are tabulated and then filed under the name of that lending institution.

The CHAIRMAN. Let's have the file of the Colonial Trust Co. here this afternoon at 2:30.

(The information referred to follows:)

OFFICE MEMORANDUM—UNITED STATES GOVERNMENT

APRIL 30, 1954.

To: Senate Banking and Currency Committee.

(Attention: Mr. Dixon.)

From: David W. Cannon, Deputy Assistant Commissioner, Title I Federal Housing Administration.

Subject: Colonial Trust Co., Pittsburgh, Pa.

In the Senate hearings on operations of the Federal Housing Administration on April 29, Senator Capehart read into the record a letter from an individual in Mosheim, Tenn., who complained about an improvement job which had been done on his house approximately 2 years ago and financed by the above-named lending institution. Mr. Capehart asked for information from the Federal Housing Administration as to the operations of this lender.

There is attached to this memorandum a report from Mr. Lester H. Thompson, Comptroller of the Federal Housing Administration, regarding the loans reported for insurance by this institution. In our Title I Division we have reviewed our file on this lender and find that in general the operations are restricted to an area of approximately 50 miles radius of Pittsburgh. It is also indicated from our file that the institution has its own loan plan which means that they make many loans of a type comparable to those insured by the Federal Housing Administration under title I which are carried on the institution's own books without being reported to the Federal Housing Administration for insurance endorsement.

A careful check of the records of the Federal Housing Administration by the Comptroller's office indicates that the loan which was made to the individual who signed the letter addressed to Senator Capehart was not submitted to the Federal Housing Administration for insurance recordation. It is assumed, therefore, that the loan is being carried on the bank's own loan plan. Our records further show that the Colonial Trust Co. has a fine record as to the operation of its title I program by comparison with other lending institutions in the State of Pennsylvania and by comparison with the national picture.

DAVID W. CANNON,
Deputy Assistant Commissioner.

COLONIAL TRUST CO.

PITTSBURGH, PA.

All loan transactions registered for insurance from March 1, 1950, to March 31, 1954:

Pennsylvania	13,215
West Virginia	1,720
Ohio	476
Maryland	91
Virginia	57
Kentucky	40
New York	4
Tennessee	2
Total loans	15,615

Reserve	Face amount	Net proceeds	10 percent reserve	Claims paid	Loss ratio (percent)
percent adjustment as ed by regulation XII,	\$8,989,179.33	\$7,912,969.37	\$791,296.94	\$39,433.47	0.80
			301,591.74		
			489,705.20		
	101,230.01	88,066.78	8,805.68	1,543.74	1.75
	9,033,617.21	7,903,093.59	790,309.36	183,696.23	2.23
	838,856.26	470,496.51	47,049.65	20,873.54	4.43
	2,273,602.13	2,021,662.73	202,166.27	41,968.00	2.08
	13,952.41	12,582.18	1,258.22	311.07	2.47
	1,083,999.87	967,946.53	96,794.65	22,862.96	2.36
	22,034,437.22	19,376,807.69	1,636,089.07	310,711.01	1.90

ts notes purchased by the Colonial Trust Co., from the Keystone National Bank in Pittsburgh, Pa., on May 15, 1950.

RENTZ. Check that with Mr. Thompson. Is that the best way
ng that information?

THOMPSON. Mr. Frentz, I have my mind on another matter here.
ot following the conversation.

CHAIRMAN. What I think is important, and I think Senator
will agree with me at the moment, is in writing title I in
to find out how widespread this sort of thing is. It just
sound right to me that a Pittsburgh bank would be financing
00 loans for a group of salesmen that were out saying, "We
use your house in Tennessee."

RENTZ. I agree with you.

CHAIRMAN. We would like to know how widespread that sort
is.

re is no objection, we will recess until 2 o'clock; and Mr. Perce,
uppose there are any more questions for you, so we will excuse
also Mr. Thompson, but we will be back at 2 o'clock.

PERCE. Thank you.

reupon, at 12:30 p. m., the committee recessed, to reconvene at
the same day.)

AFTERNOON SESSION

ommittee reconvened at 2:15 p. m., Senator Homer E. Cape-
airman) presiding.

CHAIRMAN. The committee will please come to order.

ut objection, I would like to place in the record a statement
ace J. Campbell, director of the Washington office of the
tive League of the U. S. A., and a wire to the chairman from
pbell.

information referred to follows:)

WASHINGTON, D. C., April 22, 1954.

HOMER E. CAPEHART,
man, Committee on Banking and Currency,
United States Senate, Washington, D. C.:

ch as Administrator Cole and other witnesses have implicated FHA
3 cooperative housing in current housing investigation, we respectfully
portunity to clarify role of consumer-sponsored and builder-sponsored
cooperative housing program. Also, opportunity to repeat our request

for enactment of Bennett-Douglas antikickback amendment to cooperative housing and other sections of FHA program. Concerned lest loopholes section 213 be used as excuse to destroy genuine cooperative housing program.

WALLACE J. CAMPBELL,
Cooperative League of U. S. A.

STATEMENT OF WALLACE J. CAMPBELL, DIRECTOR, WASHINGTON OFFICE, COOPERATIVE LEAGUE OF U. S. A.

My name is Wallace J. Campbell. I am director of the Washington office of the Cooperative League of U. S. A. The league, a federation of consumer, purchasing, and service cooperatives, has in direct membership nearly 2 million families.

The consumer cooperatives in all fields, and particularly in the field of housing, are devoted to protecting the interest of the consumers. Our organizations are set up specifically to prevent the kind of abuses of governmental financing arrangement which have precipitated this investigation of the housing field.

The whole purpose of cooperative development is to bring down the costs to the consumer, with always a reasonable return to the producer, but with the elimination of any exorbitant profits or financial manipulation. There is no possible interest on the part of a consumer group which is financing its own homes to boost the cost of construction or to assume a larger mortgage debt than they need, for they, as consumers, must pay the ultimate cost of their own housing.

The weaknesses of the builder-sponsored cooperative housing program lie primarily in the fact that the consumers are brought into the project after all of the financial arrangements have been completed. They do not have adequate information or adequate technical assistance to be able to take over responsibility for the project at a point early enough to prevent any abuses of the program. The role of the consumer in the builder-sponsored co-op is merely to buy into the project after the builder completes financing and has all of the plans and arrangements made for construction.

In a consumer-sponsored project the consumers who are to live in the project or the sponsoring organization—such as a veterans' post, teachers or professional organization, trade union, civic organization, or cooperative—take responsibility for seeing that the project is built with the best possible arrangements for the ultimate consumer.

Testimony presented by Administrator Albert M. Cole and other witnesses before the Senate Banking and Currency Committee have linked the cooperative housing program with the discredited section 608 rental-housing program. The cooperative league fears that unless the issues are clarified the indiscriminate linkings of the program might lead to actions which would destroy a very beneficial section of the housing program devoted to helping people to build their own homes cooperatively.

The implications in the statements of these witnesses would indicate that no lessons have been learned from the section 608 scandals. As a matter of fact, the Federal Housing Administration, in the operation of its section 213 cooperative housing program, uses the following procedures in preventing "mortgage pull-out" on section 213 projects.

As a matter of administrative policy and practice, the FHA in all section 213 cases requires that there be presented to the Director prior to the closing of the loan the following:

1. Signed statement showing the total cost of land from purchase contract option.
2. Certified copy of contract for architectural services.
3. Certified copy of contract for off-site improvements.
4. Certified copy of contract for on-site improvements.
5. Signed statement of the total amount of legal and organization expenses (not to exceed FHA's estimate thereof on the project analysis).
6. Signed statement of the total amount of carrying charges and financing (not to exceed FHA's estimate thereof on the project analysis).

If the total of the foregoing items, which constitutes the total actual cost of the project, is less than the amount of mortgage covered by the commitment, the mortgage is reduced to the lesser amount and the monthly payment provisions and other instruments are adjusted to accord therewith.

The above documents are carefully checked by the FHA closing officials prior to the endorsement of the note for insurance.

ing with officials of FHA we have been assured that although there are substantial profits in builder-sponsored cooperative housing projects, there has been no widespread profiteering comparable to that which characterized the GOS program. We urge that the committee bring before it someone from the FHA Washington staff familiar with the technical details of the program to explain in detail procedures and results of the program.

In testimony before your committee March 25 we recommended that the amendments to the Defense Housing and Community Facilities and Service Act introduced by Senators Bennett and Douglas be applied to section 213 and other sections of the FHA program where there might be danger of development of a "gravy train." The Bennett-Douglas amendment provided that the mortgagor agree to certify upon completion of the physical improvement of the mortgaged property that the actual cost of the physical improvement did not exceed the proceeds of the mortgage loan. In other words, the mortgagor would not be paid for the project in a mortgage more than it actually cost for the physical properties.

The amendment would prevent any possible exploitation of the estimated cost procedure which is currently used in the cooperative housing program.

The most criticism of the section 213 program has been leveled at builder-sponsored cooperative projects, primarily in the New York City area. We are aware that most of the criticisms which have been raised could be met if there were adequate administration of the program, both locally and in Washington. The FHA Washington staff of the cooperative housing section has been cut to the point where there is no possibility of field work or actual technical assistance to the builder-sponsored cooperative projects, let alone adequate policing as a protection against exploitation. Representatives of the New York section 213 cooperative program have asked Administrator Cole for an investigation of the FHA section 213 program, and have been promised by Deputy Administrator William F. Bess that such an investigation will be made.

The cooperative League is primarily interested in consumer-sponsored projects, although we believe it is the right of a builder, under the law, to sponsor cooperative projects. We fear that misuse of the financing arrangements available under section 213 by builder-sponsors might lead the Congress to eliminate the program in order to eliminate these abuses.

Our committee will remember, the section 213 cooperative program was a program developed following the defeat in the Senate, by a very narrow margin, of the middle income housing bill. The intent of the Congress was to encourage groups of consumers to undertake their own cooperative housing. The development of the builder-sponsored projects was an unexpected result. It has, however, brought substantial reductions in housing costs through the 40-year amortization, 4.25 percent interest rates which were

the result of the introduction of the program the total dollar volume of mortgages has been \$255 million, providing housing for 26,930 family units. Most have been in builder-sponsored projects. The consumer-sponsored projects, however, have included those initiated by teachers organizations, veterans organizations, unions, religious, civic, and cooperative organizations. The program has resulted in lower downpayments, lower monthly payments, and larger room and more bedrooms per unit than other sections of the FHA multiple-family program.

We feel it would be a mistake to destroy this program in the process of eliminating abuses which we feel can be eliminated by more adequate administration of the program by the enactment of the Bennett-Douglas amendment.

We have made suggestions for other perfecting amendments in the housing bill which you in your testimony of March 25, and would welcome an opportunity to discuss with the committee when it undertakes specific consideration of such

CHAIRMAN. You will recall we asked FHA to deliver to us the records of the Colonial Trust Co., in Pittsburgh, before 2 o'clock today, to show how wide this financing of title I projects was over the United States.

He has informed us that it is too big a task to get here by this afternoon. The records over there show that Colonial Trust Co. has

financed, under title I insurance in Pennsylvania, New York, Ohio, West Virginia, Virginia, Maryland, Kentucky, Tennessee, Florida, and Michigan, several thousand cases in all.

Senator MAYBANK. The Colonial Trust Co. has operated in South Carolina. I have a letter which shows an outrageous way in which a man in Enoree, S. C., was treated.

The CHAIRMAN. Records show, according to FHA, that they have financed in Pennsylvania, New York, Ohio, West Virginia, Virginia, Maryland, Kentucky, Tennessee, Florida, and Michigan. That is the first glance. There may be others. They tell us there are several thousand loans. They have a record of several thousand loans, and at first glance, it looks like they were in the States that I named. There may be others. They say it is just impossible to get the record together and have it be of any value this afternoon.

Now, Senator Maybank, you wish to make a part of the record—

Senator MAYBANK. Well, it is not necessary. I only wanted to call the attention of the committee to the manner in which this man was treated.

The CHAIRMAN. This is a letter addressed to Senator Maybank:

As I have been reading in the paper about the home swindlers, I have gotten myself mixed up in a case of this kind. I would like to know if they can make me pay what they have me charged with.

It says—

The American Veneering Co., from Greenville, sent a man around down here. I do not have a contract or anything. All I have is a coupon book they sent me from a Colonial Trust Co. of Pittsburgh, Pa. They had me charged about three times the original cost.

That was the same company involved in the letter I read this morning from the blind man in Tennessee. Here is a letter addressed to the chairman from the United Gas, Coke and Chemical Workers of America, and from the American Federation of Labor, Atomic Trades and Labor Council. Without objection, both letters will be made a part of the record.

(The letters referred to follow:)

UNITED GAS, COKE AND CHEMICAL WORKERS OF AMERICA,
LOCAL NO. 288,
Oak Ridge, Tenn., April 24, 1954.

HON. HOMER CAPEHART,

*Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington 25, D. C.*

DEAR SENATOR CAPEHART: In connection with your current investigation of windfall profits which has been prearranged by the Housing Agency in co-operation and collusion with builders and developers, we urge your committee to investigate the effect of such windfall profits here in monopoly controlled Oak Ridge upon the costs of operating the atomic energy program by the United States Government.

FHA, both section 9 and section 8, have been operating in a closed prearranged market here in Oak Ridge, a condition which will lead to maximum abuse of the intent and purposes of the insurance program enacted by the Federal Congress.

Can your investigators make early check so that evidence will be available before the Joint Committee on Atomic Energy acts on the pending bill for disposal of this community, H. R. 8861.

Respectfully yours,

EMERSON M. POWNALL, *President.*

AMERICAN FEDERATION OF LABOR'S
ATOMIC TRADES AND LABOR COUNCIL,
Oak Ridge, Tenn., April 24, 1954.

MR. HOMER CAPEHART,
Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR CAPEHART: In connection with your current investigation of windfall profits which has been prearranged by the Housing Agency in cooperation and collusion with builders and developers, we urge your committee to investigate the effect of such windfall profits here in monopoly controlled Oak Ridge upon the costs of operating the atomic energy program by the United States Government.

FHA, both section 9 and section 8, have been operating in a closed prearranged market here in Oak Ridge, a condition which will lead to maximum abuse of the intent and purposes of the insurance program enacted by the Federal Congress. Can your investigators make early check so that evidence will be available before the Joint Committee on Atomic Energy acts on the pending bill for disbandment of this community, H. R. 8861.

Respectfully yours,

JESSE L. HAMON,
President.

The CHAIRMAN. We will ask the Atomic Energy Commission to give us an answer on these letters.

(The following was received in response to the above:)

UNITED STATES ATOMIC ENERGY COMMISSION,
Washington 25, D. C., May 7, 1954.

MR. IRA DIXON,
Chief Clerk, Committee on Banking and Currency,
United States Senate, Washington, D. C.

DEAR MR. DIXON: This is in response to your letter to Mr. Towne of our staff dated May 4, 1954, which requested comment on identical letters dated April 24, 1954, from Mr. J. L. Hamon, president, American Federation of Labor's Atomic Trades and Labor Council, and Mr. Emerson M. Pownall, president, CIO, United Gas, Coke and Chemical Workers of America, local no. 288, Oak Ridge, Tenn., urging investigation of the effect of profits derived from sponsors of title VIII and title IX housing projects in Oak Ridge on the costs of operating the atomic energy program.

The Atomic Energy Commission is not in a position to determine how much profit the sponsors of these Oak Ridge projects have made or may make. It understands that mortgages insured by the Federal Housing Administration under title VIII cannot exceed 90 percent of the Federal Housing Administration's estimate of the replacement cost of the completed project, and that the sponsor is required to certify to the Federal Housing Administration his actual construction cost. As to FHA mortgage insurance under section 903 of title X, the Atomic Energy Commission understands that the principal amount of the mortgage cannot exceed 90 percent of the FHA appraised value (rather than estimated or actual construction cost) of the completed project.

The title VIII sponsor was selected by the Atomic Energy Commission from a number of developers who submitted competitive proposals, the award being made to the developer submitting the lowest estimated current replacement cost of 500 housing units conforming to the requirements of plans and specifications furnished to the bidders by the AEC. This sponsor received a commitment from Federal Housing Administration subsequent to the date on which certification of the sponsor's actual costs became a requirement under title VIII. Therefore, the amount of the sponsor's mortgage will be reduced if such certification reveals that the actual cost is less than the estimated replacement cost. The three title IX sponsors were selected by the Federal Housing Administration, and commitments under section 903 were issued by it.

The construction and operation of these projects affect the costs of Atomic Energy Commission operations in the following ways:

Because 500 title VIII units and 550 title IX units were built by private investors in and near Oak Ridge, the Atomic Energy Commission was saved the necessity of using appropriated funds for this purpose. In lieu of having to

spend an amount approximating \$11,475,000 for constructing this housing. The Atomic Energy Commission's expenditures will be limited to the cost of preparation of the sites leased to the sponsors, which costs are estimated at less than \$1 million.

The Atomic Energy Commission leased sites to the title VIII sponsor and to the three title IX sponsors. The leases call for payment of ground rents, which were established by appraisal, and also for tax equivalent payments to be made for such time as AEC furnishes municipal services. The tax equivalent payments are computed according to the following formula:

For the title VIII project: The initial valuation of the leased land shall be its market value at the effective date of the land lease, as determined by the Atomic Energy Commission. The initial valuation of the permanent improvements shall be computed by taking the sum of the valuation of the leased land in its improved condition, as determined by the Atomic Energy Commission, and the amount of \$3,696,711 representing the cost of the improvements not owned by the Government upon the leased land, subtracting the valuation of the leased land at the effective date of the land lease, and multiplying the balance by 70 percent. The tax equivalent rate of \$2.14 per \$100 of the valuation shall be applied to the sum of the initial valuation of the leased land at the effective date of the land lease, and the initial valuation of the permanent improvements. Provision is made for periodic readjustment of these valuations.

For the title IX projects: Same as the above formula for the title VI project except that the appraised value of the improvements not owned by the Government is substituted for the cost of such improvements.

The revenues collected by the Atomic Energy Commission in the form of ground rent and tax equivalent payments are in lieu of the full rent it would have collected if the housing had been built with appropriated funds. Under the latter arrangement the rental revenues would have been used to contribute to the cost of operating the community. Under the arrangement in effect, ground rent and tax equivalent payments will be used for this purpose. We see no way in which any profits made by the sponsors of title VIII and title IX housing will increase the cost of the Commission's operations.

The disposal program proposed by S. 3324 and H. R. 8861 would permit sale by the Atomic Energy Commission of the existing leases of the ground underlying the title VIII and title IX housing, and (2) transfer of responsibility for furnishing municipal services and, hence, the cessation of tax equivalent payments to the Atomic Energy Commission by the sponsors who would instead pay taxes to the local government.

We do not perceive any basis for the intimation, in Messrs. Hamon's and Pownall's letters, that there is some connection between the asserted "windfall profits" to which those letters refer and the pending disposal bills.

Sincerely yours,

K. D. NICHOLS, *General Manager*

The CHAIRMAN. Our first witness will be Mr. Chappell, Deputy Assistant Commissioner. Do you solemnly swear to tell the truth, the whole truth and nothing but the truth, so help you God?

TESTIMONY OF LABAN C. CHAPPELL, DEPUTY ASSISTANT COMMISSIONER, UNDERWRITING, FEDERAL HOUSING ADMINISTRATION

Mr. CHAPPELL. I do, sir.

The CHAIRMAN. Now, Mr. Chappell, how long have you been with FHIA?

Mr. CHAPPELL. I have been with Federal Housing since 1934.

The CHAIRMAN. What is your present position?

Mr. CHAPPELL. My present position is Assistant Director of the Underwriting Division.

The CHAIRMAN. Assistant Director of the Underwriting Division.

Mr. CHAPPELL. Yes, sir.

The CHAIRMAN. Are you a lawyer?

Mr. CHAPPELL. No, sir, I am not.

The CHAIRMAN. Who is the director of the Underwriting Division?

Mr. CHAPPELL. The director at the present time is Mr. Charles A. Bowser. He was just appointed last Monday.

The CHAIRMAN. Who was it before that?

Mr. CHAPPELL. Mr. Curt Mack, who resigned the 12th of March, this year.

The CHAIRMAN. How long had he been with FHA?

Mr. CHAPPELL. Since September 1940, with the Underwriting Division, and about 2 years with another division.

Senator MAYBANK. Mr. Chairman, I think we should get Mr. Mack here. My information is that the underwriting section should be able to provide the most information. If the underwriters hadn't approved a lot of this stuff and had these private underwriters not taken advantage of it, it wouldn't have happened.

Mr. CHAPPELL. I don't know that they passed a lot of bad stuff. They passed it according to instructions.

Senator MAYBANK. I will withdraw the word "bad."

I think you will find most of your trouble in the field offices in the underwriting; is that wrong?

Mr. CHAPPELL. That is where the cases were processed.

The CHAIRMAN. You have been there since 1934?

Mr. CHAPPELL. Yes, sir.

The CHAIRMAN. You are the assistant to the man in charge of underwriting?

Mr. CHAPPELL. Yes, sir.

The CHAIRMAN. Tell us how—of course, that underwriting did include section 608's and 207's?

Mr. CHAPPELL. Underwriting includes examination of all cases involving a mortgage.

The CHAIRMAN. It includes all individual FHA homes?

Mr. CHAPPELL. Section 203, and so forth.

The CHAIRMAN. It is not only rental property, but everything?

Mr. CHAPPELL. All kinds, where there is a mortgage involved.

The CHAIRMAN. How many people are in the Underwriting Division in Washington?

Mr. CHAPPELL. We have 72.

The CHAIRMAN. How many in the average field office?

Mr. CHAPPELL. Well, it varies, sir, according to the size of the State, but they run anywhere from 6 to 75.

The CHAIRMAN. Seventy-five would be where?

Mr. CHAPPELL. New York or Philadelphia.

The CHAIRMAN. And 6 might be—

Mr. CHAPPELL. Nevada.

The CHAIRMAN. You have 72 people in the Washington office.

Mr. CHAPPELL. Seventy-two, now, sir.

The CHAIRMAN. Tell us briefly, how these underwriters work, particularly how they work on section 608 and others, of course.

Mr. CHAPPELL. You want the field offices, of course, because that is where the applications are processed.

The CHAIRMAN. Suppose I wanted to make an application for a section 608 loan. Let's say I am interested in building a section 608

project. How would I proceed, how would the underwriters proceed? How would that be handled?

Mr. CHAPPELL. You may first go to the office and indicate your program, or you may go to the mortgagee and get your financing, but it doesn't make any difference which you do first.

After going to the office and explaining the program, and it looks as though it may be a workable proposition, you file an application on a prescribed form with a mortgagee who is willing to make the loan if approved by FHA.

The CHAIRMAN. Do I have to get a mortgagee to agree, first, before I go to FHA?

Mr. CHAPPELL. Yes, sir; you have to sign an application with the sponsor and present it to FHA before any processing is started.

The CHAIRMAN. Let's make sure we understand that. Before I can make an application for a section 608, I have to get someone to agree that they will buy the mortgage?

Mr. CHAPPELL. Make the loan, yes, sir. Whether they bought it or made it themselves, to you.

The CHAIRMAN. How could they tell me whether they could or could not, not knowing what my plans and specifications were?

Mr. CHAPPELL. You are supposed to know that, because you have to file that with the application before FHA can start processing.

The CHAIRMAN. Do I have to own my land before I go to FHA?

Mr. CHAPPELL. Yes, sir, you had to have the land free and clear.

The CHAIRMAN. In other words, I acquired my land and acquired a bank and insurance company or some lending agency that would agree to buy my mortgage when it was finished?

Mr. CHAPPELL. That is right.

The CHAIRMAN. And then I went to FHA?

Mr. CHAPPELL. Yes.

The CHAIRMAN. What do I do in the presence of FHA?

Mr. CHAPPELL. When we get that in the field office, the application is turned in for processing. It immediately comes in to the Underwriting Division. In the Underwriting Division, we have the cost estimators.

The CHAIRMAN. It comes into the Underwriting Division in the field office?

Mr. CHAPPELL. Yes, sir. The application starts under the process. That includes determining the fair market value of the land. The term is different from what we call "fair" in other sections of the act. Then the Architectural Section of that office begins the making of a cost estimate by a quantity takeoff of the plans and specifications. The cost estimator then goes out and gets prices from material men and builders, the prices for the materials that will be used in that particular job, and the quantity to be used.

Assuming it was a big job, it might be one million feet of lumber, rather than a few hundred thousand.

The CHAIRMAN. We are using me as the example, now. You didn't require that I come in with all the figures and make an affidavit that they were true figures as to the cost of this project?

Mr. CHAPPELL. No, sir. We would accept it if he wants to give it, but we made no requirement. The assumption was that he felt the mortgage was what he needed. We sought information from representative sources, independent of his case, and we got that from people

he were typical operators in the area and representative suppliers and dealers in materials.

The CHAIRMAN. Now, you have all that. Then what happens?

Mr. CHAPPELL. We completed the cost estimate of that particular project. The physical improvements.

The CHAIRMAN. Then what happened?

Mr. CHAPPELL. Then that information is passed on to one of the other sections which has another function to perform. The appraisal or the fair market value of the land is determined by the Market Section—it is all the same form, and it is carried to the Mortgage Credit Section. Of course, the Valuation Section, in addition to making an estimate of the fair market value of the land, has also made an estimate of the rents that that property, when completed, will yield. That is, whether or not the particular people for whom it is intended are able to pay that amount per month.

Certain computations are made in deducting the operating expense from that total income so that we can get the net income. Then those figures are put together in certain criteria, from which the mortgage is determined.

The CHAIRMAN. Does the field office have the right to make the commitment themselves?

Mr. CHAPPELL. Indeed, they did.

The CHAIRMAN. Did they make the commitments in the field?

Mr. CHAPPELL. They did, yes, sir.

The CHAIRMAN. Who drew up the articles of incorporation or the charter of incorporation?

Mr. CHAPPELL. That was not done, sir, until closing time of the incorporation. You see, many of these corporations, when they filed their application, until they got their commitment, never existed. It was never incorporated and maybe they never closed on the land, but they probably had options to get it. All of that is a prospective deal. It is not a deal, yet.

The CHAIRMAN. When does it become a deal?

Mr. CHAPPELL. It did not become a deal until the commitment was issued, given to the mortgagee and returned signed by the mortgagee and sponsor and then it became a binding contract.

The CHAIRMAN. That was long before construction was started, wasn't it?

Mr. CHAPPELL. Indeed, it was.

The CHAIRMAN. You bought \$100 worth of preferred stock in each of the corporations, didn't you?

Mr. CHAPPELL. That was done at the time of the closing.

The CHAIRMAN. Now, when is closing?

Mr. CHAPPELL. After the commitment has been returned by the mortgagee and accepted.

The CHAIRMAN. That is before construction has started?

Mr. CHAPPELL. Yes, sir.

The CHAIRMAN. Now, who handled the writing of the charters?

Mr. CHAPPELL. That was not done by the underwriters.

The CHAIRMAN. The Legal Division handled that?

Mr. CHAPPELL. The closing attorneys in the field supervise that.

The CHAIRMAN. Who is that?

Mr. CHAPPELL. That is Mr. Perce's division.

The CHAIRMAN. Are any of the attorneys for FHA here?

STATEMENT OF EDWARD S. COULTER, CHIEF COUNSEL, MULTI-FAMILY HOUSING DIVISION, FEDERAL HOUSING ADMINISTRATION

Mr. COULTER. Yes.

The CHAIRMAN. You are a member of the legal staff of FHA?

Mr. COULTER. Yes.

The CHAIRMAN. Did you handle writing of the charters on section 608 projects?

Mr. COULTER. Only where there was a sales property.

The CHAIRMAN. Do you know whether the charter was the same on all section 608 projects, or did they write individual charters?

Mr. COULTER. I am almost certain they were not. They were all the same at the same period of time, but they were revised from time to time. I know that as a matter of history.

The CHAIRMAN. Are you certain that they weren't all different?

Mr. COULTER. Certainly.

The CHAIRMAN. I say, they were all different, were they not?

Mr. COULTER. They were different in this respect, that where they had to conform to State procedure or State statute, they would be different.

The CHAIRMAN. I understand that, of course, they were different in that respect, but they were likewise different in the requirements and requests of FHA, too; were they not?

Mr. COULTER. Different sections were; yes, sir.

The CHAIRMAN. Do you know of any reason why they were not all the same?

Mr. COULTER. Just statutory requirements.

The CHAIRMAN. Do you mean State statutory requirements?

Mr. COULTER. No, sir; different Federal—

The CHAIRMAN. I am talking about section 608.

Mr. COULTER. Senator, the practice was this: The Washington office sent out to the field—

Senator MAYBANK. Mr. Chairman, will you ask him to come up where we can hear him?

The CHAIRMAN. I will not swear you in. You are not a witness, as yet.

Mr. COULTER. Now, the practice was this: They sent out from the Washington office, to the field, what was designated as a model form of charter. The instruction during my entire connection with the Administration has been, to the field attorneys, to see that that model form was followed, except in those cases in which it was necessary to conform to particular State statutes or procedures.

Any substantial variation from those model forms were to be submitted to the Washington office for approval. That has been the practice.

The CHAIRMAN. But you, personally, handled no section 608's?

Mr. COULTER. I did handle a few, because I came with the Administration in 1949, and the act did not expire until March 30, 1950, I believe, but I did not formulate any of the provisions.

The CHAIRMAN. I am afraid we will find the requirements of FHA were different in almost every instance.

Mr. COULTER. That has not been my experience, Senator.

The CHAIRMAN. But you say you have only handled a few. How many would you say you handled?

Mr. COULTER. In the initial stages, I would say it was a very limited number. Maybe fewer than 100 out of the entire 7,000 or 8,000. They were virtually out when I came with the Administration. I helped handle the servicing of them since that time.

The CHAIRMAN. Now, we get back to Mr. Chappell.

We are up to the point where the Legal Division handles the charters for these corporations under section 608, and I assume when the charter was in proper order, they incorporated and delivered the \$100 worth of preferred stock to FHA and then they were ready to proceed; is that right?

Mr. CHAPPELL. I assume so, after the commitment has been recommended by the underwriting staff.

The CHAIRMAN. It was testified here this morning that in literally hundreds and hundreds of cases, the mortgages were increased. Do you know about that?

Mr. CHAPPELL. Yes, I know about some of those, for this reason: That was after insurance. The Underwriting Division had no particular function after insurance unless requested by the Rental Housing Division or the Property Management Division who acquired the property, to give them technical counsel. However, it being a case in which the sponsor or the mortgagor asked for an increase after insurance, it was worked out with the local office, presumably to the best degree they could, and it then had to come to the Rental Housing Division in Washington for approval.

I imagine in every case, Mr. Powell's division, the Rental Housing Division, referred that to the Underwriting Division for a memorandum as to the justification for the cost, or whatever the basis was for the increase asked. If we found it to be consistent, in other words, if it was something we had encountered when we originally processed it, we gave them a favorable report and there was an increase made, if Mr. Powell saw fit.

The CHAIRMAN. Why, if you increased hundreds and hundreds of them, when you found the cost ran less than the mortgage, didn't you decrease it?

Mr. CHAPPELL. We never found the cost ran less, necessarily, because we never looked at the builder's cost, ever. That is the completed cost. Our conclusion was made before a pick was ever stuck in the ground.

The CHAIRMAN. Do you mean you deliberately increased hundreds and hundreds of mortgages without checking the man who asked you to do it?

Mr. CHAPPELL. We looked at his justification for the requested increase, of course, and if that came within the administrative policy set—that is, costs beyond his control—

The CHAIRMAN. Does FHA have a record of those mortgages that have been increased?

Mr. CHAPPELL. I am sure they have.

The CHAIRMAN. We are going to find out how many of those are part of these several hundred we have where they mortgaged-out.

Senator BENNETT. Could I ask a question at this point?

Senator MAYBANK. I was just going to ask the witness what the chairman asked him. I am going to ask the chairman to have the FHA send down here a list of the people who received increases. Send them all down.

(The information referred to will be found in the files of the committee.)

Senator BENNETT. I would like to raise a variation of the same question. Did the builder present to you any more than an attempt to justify the particular change, or the particular increase he was requesting?

Mr. CHAPPELL. No, sir. Usually, he didn't give enough of that. You had to go back several times.

Senator BENNETT. So it is entirely possible that a builder whose actual costs were 30 percent below your original estimate could come in and ask you for an increase because of a particular set of circumstances, and you would grant it, and that increase might actually have increased the difference between the mortgage and the actual cost, instead of representing an excess that he had to have in order to break even?

Mr. CHAPPELL. Of course, that is hypothetical, but I would say if he had already constructed a property at a lesser cost than we had estimated originally, then to that same extent of difference, loans might have been increased on those, yes. I don't think the increase given, when you ask for it, would vary from what the difference might have been in the original process, and his actual cost incurred.

Senator BENNETT. That confirms the point I wanted to get clear, which is that there was no necessary relationship between an assumption that the total costs of the building were greater than the expected amount under your estimate and the fact that he came in and asked for an increase.

Mr. CHAPPELL. I think you lost me there a minute, but I will say this: The cost actually incurred by the builder is not a figure that we ever had.

Senator MAYBANK. Who had that figure?

Mr. CHAPPELL. The builder had it, only.

Senator MAYBANK. The local office didn't have it?

Mr. CHAPPELL. Nobody ever had it. It was never given to us.

The CHAIRMAN. It isn't clear to me how you could give him an increase, unless you did have his complete total cost.

Mr. CHAPPELL. The increases were only under certain circumstances.

The CHAIRMAN. Let's see if we understand this.

Senator BENNETT. May I give you an example, Mr. Chairman? I know of this: I discussed it when I was in Utah last week. This isn't a section 608 project, it was a military project, but when the project was designed, it was assumed that it would be heated with bottled gas. Then, in the meantime, natural gas became available, so the builder goes to the FHA and says, "I've got to have an additional allowance because I figured on building a system for bottled gas, and now I have to build a system for natural gas. I estimate it will cost X thousand dollars for me to make the changeover."

They didn't tell FHA how much they had invested in the whole project. They just come in with a specific new project which is going to be built into the whole and say, "Will you allow this new project?"

Senator MAYBANK. Will the Senator yield?

Senator BENNETT. Yes.

Senator MAYBANK. Doesn't the military housing section require the contractor or the builder to file an affidavit as to his expenses?

Senator BENNETT. That is right, but I wanted to give this as an example of the type of increase rather than relate to the separate law for the military.

Senator MAYBANK. I have heard some things that disturbed me about the military sections of the Housing Act. We wrote requirements into the law—and I think the Senator was a member at the time—and we made them file costs under oath.

Senator CAPEHART. A man would come in where the plumbing originally was to cost \$150,000 and he would say, "Now, I find that the plumbing is going to cost \$200,000. Will you increase my mortgage to the extent of \$50,000?" You would check and ascertain that his plumbing costs were going to be \$200,000 instead of \$150,000, and allow it; is that right?

Mr. CHAPPELL. The local office would do that, yes.

Senator CAPEHART. That is what would happen, then?

Mr. CHAPPELL. Yes.

Senator CAPEHART. When that happened didn't you ever say to that fellow, "All right, we will allow the \$50,000 increase on plumbing at the moment but when your project is completed, if you have saved \$50,000 someplace else, we are going to deduct it"?

Mr. CHAPPELL. You already have a contract with your commitment and your lender.

Senator CAPEHART. But, there is nothing in the commitment which says you will permit him to increase it?

Mr. CHAPPELL. We didn't have to increase it at all.

Senator CAPEHART. But you said you did increase hundreds of them but never reduced one.

Mr. CHAPPELL. As Mr. Perce mentioned this morning, the increases were given because perhaps there were times when he couldn't get the material he originally specified. He had to go to a different type of material.

If we found in the Underwriting Division when such a case was presented, after being recommended by the local office, that there was justification for this difference or increment, it was granted as far as we were concerned or at least we recommended it.

Senator BENNETT. I just wanted to make this observation, Mr. Chairman, that I believe in requesting an increase for plumbing according to the examples you suggested, he didn't even have to say, "I figured the \$150,000 and it is going to cost me \$200,000."

All he had to do was to come in and say, "Here is a list of material I have to have to finish my job and it is going to cost me so much extra," and they never even inquired as to the relation of the total overall cost of his plumbing to the total estimate. They were simply concerned with the particular list that he submitted. Isn't that right?

Mr. CHAPPELL. That is right. It had no particular relation to the other because we still didn't know the cost of the total project. We had no figure with which to compare it. He had to satisfy our local office that there was justification for his particular request for increase.

The CHAIRMAN. As one of the top men in the Underwriting Department, can you tell us how it is possible for an estimator to miss it by 10 to 50 percent?

Mr. CHAPPELL. I think I can tell you something about that, sir.

In the first place, it is a known fact that builders on any type of project will vary construction anywhere from 3 percent to 20 percent between the high and the low on a job they are willing to contract for. Why they vary I don't know. They have different cost estimators, they want to take less profit, or they figure they can save on the job, but those variations do occur. That is a matter of fact in the industry and not a recent one, either. It has been so for years and years in all my experience.

Consequently, when we in FHA have one little cost estimator going out and getting current costs as directed under the legislation, of this project, to be completed sometime hence, but get it as of a current basis by contacting local folks, he gets it and makes a cost estimate or uses data of the typical. Now, if there are variations in construction costs between the typical builder and a very productive builder who is efficient in his operation, who can save a great deal more, I can well understand that it might vary and fluctuate 20 percent.

Senator MAYBANK. You say you have one cost estimator?

Mr. CHAPPELL. I don't think we have over 2 in any office and that is in New York where we had 2, sir.

Senator MAYBANK. That is all you had?

Mr. CHAPPELL. That is right. The architects made a quantity takeoff but this one man did the collection of cost data.

Senator MAYBANK. You have only two men you said in New York so I will stay with New York as an example.

The CHAIRMAN. Remember, you are under oath now.

Senator MAYBANK. You had two men in New York to collect data on the millions of dollars of section 608's and the other things?

Mr. CHAPPELL. He is the man who collected the cost data.

Senator MAYBANK. I assume he collected correct prices.

Mr. CHAPPELL. He took prices on materials. Quantity estimates were made by other men on the staff and when he gave these prices used in the job, the men who did the takeoffs made the extension of prices and so forth. We had one man collecting prices of materials and labor that went into these jobs in each office. We don't have more than one for any office except New York.

Senator MAYBANK. Do you mean in the State of California where they have large differences in kinds of houses from the northern border on down, you have only one man?

Mr. CHAPPELL. We have 5 offices in California and 1 man in each office. We have one cost man to collect cost data.

Senator MAYBANK. You have one man to each office.

What did this man do? He got the cost of nails and the cost of bricks and the cost of lumber.

Mr. CHAPPELL. All the materials that went into the project, he got the prices on them.

Senator MAYBANK. He didn't figure the number of bricks that went into it?

Mr. CHAPPELL. No, indeed.

Senator MAYBANK. He just got the prices?

Mr. CHAPPELL. He got the prices from the material men and dealers and so on.

Senator MAYBANK. I don't think it would take him long to get the prices.

Mr. CHAPPELL. One man could do it. New York had a big rush on and we had different types of materials.

Senator MAYBANK. But you were making the point that this one man made the estimates and so forth.

Mr. CHAPPELL. This one man was collecting cost data, in offices where he had many projects. He was constantly having to argue with the builder's architect who is trying to get the commitment up, frequently, and he had to do all of this, himself. He is under tremendous pressure and there is a hurry to get the cases out and no doubt he would make mistakes he wouldn't normally make.

Senator MAYBANK. How do you account for the fact that FHA officials repeatedly came in here, and Mr. Powell—do you know Mr. Powell?

Mr. CHAPPELL. Yes; I know Mr. Powell.

Senator MAYBANK. Mr. Powell testified here 3 or 4 years ago that it would be impossible to make more than a 3-percent mistake.

Mr. CHAPPELL. That is Mr. Powell's opinion but it is not mine. I don't think that is representative of what is in the industry.

Senator MAYBANK. The bankers and those who had the mortgages said we couldn't possibly make mistakes.

The CHAIRMAN. Just why do you think they made such grave mistakes varying between 100 to 215 percent?

Mr. CHAPPELL. I think there were several things. First, they were busy as could be, there was pressure for them to hurry. They were encountering enormous projects. They had to make a comparison between the representative builder and the poor builder in order to get a representative figure. Not the highest, not the lowest, but one to be representative, or typical of the general building in the area. That would be true for materials, as well. When they got that information they made this choice. As I say, again, an efficient builder could have well built under those costs.

The CHAIRMAN. Why couldn't they have done 1 of 2 things or both: Why couldn't they have the builder supply all the figures and swear to them they were true; or secondly, why didn't they write into every contract when the building was finished, a man could total up his costs and then you would adjust the amount of the mortgage to the actual cost?

Mr. CHAPPELL. Well, I don't know why we didn't do it but nobody suggested that until now that I know of.

The CHAIRMAN. It is so obvious to me that a businessman would do it, that it wouldn't even come to me to say anything about it. It is so obvious to me that a 6-year-old kid would do it.

Senator MAYBANK. Let's keep the record straight here. We brought in title VIII and title IX in 1951.

Mr. CHAPPELL. That was after section 608, of course.

The CHAIRMAN. There is nothing in the law that prohibited your doing the two things I just stated?

Mr. CHAPPELL. No; I don't think it is necessarily prohibitive.

The CHAIRMAN. I wasn't here and didn't help write it—it was written back in 1940—but the principle of writing the law on the

basis of estimating and arriving at a commitment was in order to give the builder some idea of how much money was involved so that he could go and make arrangements for financing. But I don't think in all fairness to the Congress and the Senators, that it was ever intended that you should do anything else except do that and then come back later and adjust them.

Mr. CHAPPELL. If I am not mistaken, one of the gentlemen was reading from Senator Tobey's remarks on these amendments, and if you complete the reading of that, you will find it is not what you say now. It is different. I don't believe I have a copy.

The CHAIRMAN. We will get a copy.

Mr. CHAPPELL. I was going to identify it if I may here. Here it is. It says:

AMENDMENT OF NATIONAL HOUSING ACT

NOVEMBER 25 (legislative day, NOVEMBER 24), 1947.—Ordered to be printed

Mr. Tobey, from the Committee on Banking and Currency, submitted the following report to accompany S. 1770.

The CHAIRMAN. Suppose I read it to you.

Mr. CHAPPELL. Yes, sir.

The CHAIRMAN (reading):

SEC. 2. Title VI of the National Housing Act, as amended, shall be employed to assist in maintaining a high volume of new residential construction without supporting unnecessary or artificial costs. In estimating necessary current cost for the purposes of said title, the Federal Housing Commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the actual costs of efficient building operations.

That was an amendment made to the act, December 27, 1947.

Mr. CHAPPELL. I am speaking of the committee report to accompany S. 1770.

The CHAIRMAN. What does it say?

Mr. CHAPPELL. I think it would be informative to everyone if that whole thing was read, sir.

The CHAIRMAN. I will read it.

It has been indicated to members of the committee that, in some cases, the insurance granted under title VI has represented more than 90 percent of actual costs. The existence of such cases is not unexpected under a law which directs that the insurance granted thereunder be limited to 90 percent of the estimate of the necessary current cost of the property or project. While such a situation might possibly be overcome by requiring that the insurance be based on a percentage of actual cost, rather than an estimate of cost, there is no real indication that the number of cases in which the estimates greatly exceed actual cost are sufficient to justify the imposition of such a requirement with its attendant practical disadvantage. For example, the imposition of such a requirement would make impracticable the present system of firm commitments to builders under title VI. Since it would be impossible to determine actual cost until construction had been entirely completed, mortgages would have no assurance as to the amount of the loan which the Federal Housing Commissioner would have authority to insure. Thus, the effective use of title VI firm commitments would be eliminated as a means of production credit for the whole building industry. Furthermore, it would make it necessary to return to a system of case-by-case audit of actual costs similar to that used to control the sales prices of priority-assisted housing, and require a large increase in administrative personnel and in the time required to process applications for insurance. Consequently, the committee has recommended an amendment which, while retaining the estimate of necessary current cost as the basis for insurance operations under title VI, would direct the Federal Housing Commissioner to use every feasible means which, in his judgment, would assure that the estimates will approximate as closely as possible the actual costs of efficient building operations.

Well, you certainly would say 120 percent would be beyond the scope of what they were talking about here, wouldn't you? Or 130 or 140 or 150?

Mr. CHAPPELL. I would think that much would be beyond it, yes. I should think they could come within 20 percent, under any circumstances.

The CHAIRMAN. I don't know who wrote this report.

Senator MAYBANK. That was Senator Tobey.

The CHAIRMAN. You talk about feasible means to assure the estimates will approximate as closely as possible the actual costs.

Now, according to the Internal Revenue Service several hundred of them have run way over the costs.

Senator MAYBANK. I think in justice to the committee, and in justice to myself, I should say I remember the report and I believe it was the thought of Senator Tobey that there could be no collusion under feasible costs, as it clearly states, and if it runs 140 percent, as you suggest it could come within 20 percent, but we have cases here of 140 percent.

The CHAIRMAN. 215.

Senator MAYBANK. Yes.

Senator BENNETT. Mr. Chairman, I think it might be interesting if we asked the FHA to report to us any new regulations that were issued after that particular legislation was passed. They are now under some new and added compulsion to make sure that their estimates conform, using every feasible means, to the actual cost.

Do you know if there were any changes in procedure or any new regulations or any changes in estimating things after that act was passed? (See p. 1967.)

Mr. CHAPPELL. They were to get dependable, reliable data in their contacts. We knew of no other way to get it except in going out to those sources and there wasn't much else you could do, that I know of.

Senator BENNETT. Well, I would think you might have reviewed your previous criteria to determine whether or not the criteria was sufficiently accurate to fall within the request of the committee.

Mr. CHAPPELL. That was done, sir, and extra caution was given to the men, as something over and above.

Senator BENNETT. You feel that your criteria was accurate enough and that a word of caution was all that was necessary?

Mr. CHAPPELL. We felt the system was good enough and all they needed to do was be cautious in getting information under the system which would give them a dependable answer.

Senator BENNETT. Unfortunately I was involved in a side discussion when you were talking about the figuring of the value of land. If I remember correctly you made the statement that in most cases, the sponsor owned the land before he made an application.

Mr. CHAPPELL. I didn't say he owned it. I said he was supposed to have the land free and clear. Frequently they did not own it until they had an option. It is just a technical point.

Senator BENNETT. Were you ever interested in the amount of money paid for the land or the method by which he acquired it?

Mr. CHAPPELL. Not so much as we were with regard to what other land might cost, and whether that was comparable. We didn't always get exact figures.

Senator BENNETT. When you came to estimate the value of the land and its relation to the total cost of the project, what value was put on it?

Mr. CHAPPELL. It did not necessarily have any relation. The land was determined before the costs were determined, probably, and then the two were put together to get the cost of the total project. The evaluators in the field offices, or appraisers, as they are now called, were instructed in a method of obtaining a fair market price for land. We had a prescribed plan. If he was going to make an estimate of the fair market value, he considered the comparable advantage of location, approximate estimate to where employment would be, utilities availability and so on, and we asked him in most cases to get five such comparisons and then they selected what in their judgment was a fair market value of this land. It was not an appraisal under section 608. Neither the land nor the total improvements. They were estimates of cost as indicated by the legislation.

Senator BENNETT. But the thing I am interested in fundamentally is, it seems to me in testimony we heard earlier in these hearings—and there was at least an implication—that the land was valued not as bare land on which a building would be built, but it was valued at what it might be considered to be worth after this big improvement had been put on it. So that the land value or the amount at which the land was taken into the total cost of the project was not at the price they could probably purchase bare land, but its price as affected by the added value given to it through the project that was supposed to go on it.

Mr. CHAPPELL. If that was done it was contrary to instructions and they were not supposed to form an opinion on fair market value concerning the improvements already on it. They were to make that determination on the land. If they didn't do that, they would not necessarily get current costs of the property. If you were automatically allow writeups on land to improve an enormous apartment building, we would not be getting the current cost of the property.

Senator BENNETT. Do you have any information as to whether or not your instructions were generally followed out?

Mr. CHAPPELL. We had supervisors who went around. We didn't have enough. As I mentioned we have 72 people on the staff. We have 40 men at this time and that we had only about 62, to do the supervision over the wide United States with a business doing billions of dollars. We were spot checking and doing the best we could. I believe that the men honestly, by and large, were trying to carry out the instructions based upon the indications and instructions of the Congress. I had no reason to believe anything else. I never saw anything different. I was constantly alerted to that. I thought that was part of my job.

I don't believe in having 75 officers in this country to supervise and about 40 men to do headquarters work and do also field supervision and travel over the States. If there was malpractice going on, we should have heard of it. No doubt there were some mistakes but when the men saw they were not properly oriented or making the appraisals or cost estimates as instructed, they took extra caution and time to train them and teach them and press upon them to do that.

Senator BENNETT. Did you ever have any of these land appraisals because they were land appraisals; if you had a bare piece of land to

check, were they ever checked by outside, independent local appraisers?

Mr. CHAPPELL. We never had them checked. I don't doubt but what somebody had them checked. No doubt at times they felt we were too low on the price, but we never had them checked in FHA. We employed competent people who were trained in a system that would recognize those things used by leaders in the field. We never had reason to go back and check it. They never told you they were too low.

Senator MAYBANK. You say you employed people to do this checking and FHA didn't check them?

Mr. CHAPPELL. I say we didn't employ people outside.

Senator MAYBANK. Did anyone employ anyone to check?

Mr. CHAPPELL. No; not that I know of. I said we did not and I don't know of any.

Senator MAYBANK. I understand, but did anyone employ them?

Mr. CHAPPELL. I don't know.

Senator MAYBANK. Did the banks, did the underwriters, did the builders, did anybody employ anybody to check these figures of land values?

Mr. CHAPPELL. Nobody that I know of. Our own men checked it in the case of the local appraisers.

Senator MAYBANK. Who is the local appraiser?

Mr. CHAPPELL. The evaluator on our staff.

Senator MAYBANK. You had evaluators in each of your offices?

Mr. CHAPPELL. Yes.

Senator MAYBANK. They checked the price of land?

Mr. CHAPPELL. Yes.

Senator LEHMAN. Yesterday Mr. Greene, in reply to a question that I addressed to him, in which I pointed out the tremendous excess in the estimates over the actual cost, replied that that excess was due to 1 of 2 reasons and probably both. One was the faulty estimation procedure, or defective and inadequate inspection. That might account for a lower cost if materials were put in of lesser value than would be comparable.

Would you tell us what the relationship is in your estimation unit and in your inspection unit. Were they under the same supervision?

Mr. CHAPPELL. Yes. They have a different supervisor in each office, of course.

Senator LEHMAN. How closely do they work together?

Mr. CHAPPELL. Very closely together. There was a definite line of demarcation between their functions. I don't believe Mr. Greene said, unless I misunderstood him, sir, that the procedure was faulty. I believe he said that the analysis of the particular case was faulty. In other words, the judgment of the estimator or the appraiser probably was faulty but not the system.

Senator LEHMAN. He particularly emphasized these two possibilities. I questioned it. I said, "It seems to me perfectly evident that the difficulty lays with faulty estimation procedure." Those are the words that I believe he used.

I have been thinking it over a lot and while I think faulty estimation procedure might account for excessive estimates, nonetheless I think part of the fault may be due to the fact that there was inadequate inspection procedure.

In other words, certain values and costs were taken into account. Brick, plumbing, carpentry work, mechanical work, and electrical work. And it is possible, of course, that the builders may have gypped on that and given a finished building of considerably lesser value because of faulty material.

Mr. CHAPPELL. I am sure that has happened and we have seen evidence of it afterward when it was too late to do anything about it, in going around to see projects, but the first error that I think Mr. Greene had reference to was the error in the original cost estimate. That could have been justification for some of these variances—whether they are as wide as claimed or not I have no idea because I have no information on it, but it was certainly expected by everyone who knew the business that there would be variances between our estimate and the experience of the builder.

However, the other phase that Mr. Greene mentioned—and certainly I agree with it, too—that inspectors after the inspection started, were entirely too thinly spaced. We had 1 man handling 1,200 and 1,300 units, and it was impossible for him to do the job he was supposed to do.

No doubt there were times, whether intentional or unintentional by the builder, where he got into the construction something less than was in the plans and specifications upon which the plan was based. To that extent it would make a difference.

Senator LEHMAN. You got the specifications, didn't you?

Mr. CHAPPELL. That was part of the contract document.

Senator LEHMAN. And the specifications, if carried out carefully, would have indicated a cost, say, of \$1 million in a certain project. But if the builder gypped on the thing and put in materials of lesser value which cost him only \$700,000 there would be right there a very substantial profit or margin?

Mr. CHAPPELL. Yes.

Senator LEHMAN. To what extent did the administration inspect the building while it was being built?

Mr. CHAPPELL. In most cases we suppose they will be there constantly because we not only had to determine compliance with the specifications but we had to make estimates monthly for the benefit of the mortgagee in making pay-outs to the builder. So knowing what went into the construction and knowing what materials were still on site not in the construction were essentialities. However, the men were not sufficiently available to do that job adequately. There were only a few spots where there was heavy volume of this, where we had enough. Where the officers had small volumes of this they had no difficulty. By and large I think you can find that the construction on those were better than the others.

The CHAIRMAN. I have to leave here in just a few minutes and I would like to call Mr. Thompson, please.

Come up, Mr. Thompson.

~~STATEMENT~~ OF LESTER H. THOMPSON, COMPTROLLER, FEDERAL HOUSING ADMINISTRATION—Resumed

~~THE CHAIRMAN.~~ Mr. Thompson, you were here in this morning,

~~THE CHAIRMAN.~~ Yes.

The CHAIRMAN. Your title please.

Mr. THOMPSON. I am the comptroller.

The CHAIRMAN. Do you remember a letter that the Glen Oaks Village—that is the so-called Gross-Morton case—wrote you on October 27, 1947?

Mr. THOMPSON. I would not remember the letter, sir.

The CHAIRMAN. You would not remember receiving the letter.

Suppose I hand you the letter. See if you think you did receive it.

Mr. THOMPSON. Yes, I know that I did.

The CHAIRMAN. Well, this file is from FHA.

On December 14, 1948, the directors at Glen Oaks Village, that is 106-17 Jamaica, Queens County, N. Y., declared a dividend: "Be it further resolved this addition of \$53.33 per share on the shares of common stock now issued be declared," and they had 15,000 shares of common stock which they paid \$1 a share for—that would be \$15,000—they declared a dividend of \$799,995.

They sent you that resolution. This is from your files.

They also sent you their March 31, 1949, operating statement in which they show an operating loss of \$173,744.50. Yet, they declared a dividend of nearly \$800,000 and sent you their minutes and wrote you this letter on October 27. I will read the letter.

It is to Mr. Lester Thompson, Comptroller, Federal Housing Administration, re projects No. 012-4006, Glen Oaks Village, and so forth.

DEAR SIR: In accordance with your request we are enclosing additional data under 2 (d) of the FHA requirements under section 608. With reference to the distribution—

let's look that up for me, you attorneys—

under 2 (d) of the FHA requirements under section 608. With reference to the distribution made on December 15, 1948 we wish to submit the following information.

Now that is the dividend, the distribution I just talked about, of nearly \$800,000.

We wish to submit the following information: Although the cash outlay made to the company is less than the estimate by you of the normal current costs to reproduce the property, this difference is explained by the fact that no payment was made to some expenses usually incurred in a building corporation. These expenses included, among other things, the following: (1) Builders' and architects' fees normally paid to a general contractor. (2) Subcontractors' fees and retailers' overhead and profit where materials were procured directly by us through large-scale purchases. (3) Free use of heavy building equipment. (4) Transfer at original cost of inventories of material, topsoil and so forth, on hand.

If these items had been paid for in cash by the company at prevailing prices at the time of delivery and if the amount so paid had been added to the cash outlay by the company, the total amount paid would probably have exceeded your estimate of replacement costs.

By following this procedure we left the excess funds in the company during construction and thereby remained in a far better financial position than if we had withdrawn the funds. Maintaining this liquid position at all times during the operation, particularly when prices of material and labor were rising daily, was our best guaranty of successful completion of the project. This procedure resulted in cash on hand in the corporation upon completion of the project. We made capital distribution of the surplus.

Did you get that?

What did you do with that letter when you got it?

Mr. THOMPSON. Well, Senator, without reference to my records I couldn't say definitely what was done with the letter, but normally the procedure would be this, that I would take all the facts that I had gathered in connection with this project and report them to Mr. Clyde Powell.

Now, I have here a statement that I think I should make with respect to the analysis of these statements.

The CHAIRMAN. No, no, I want to know just what your memory is about this one.

Mr. THOMPSON. Well, I will have to say this, that I think my records will show that was reported to Mr. Powell. This file shows no answer to the letter at all.

The CHAIRMAN. This letter came in nearly a year later.

Mr. THOMPSON. It is not likely, sir, that I would have made a reply to that letter but that I would have reported all of the facts to Mr. Powell. That is the normal procedure.

The CHAIRMAN. In other words, they only gave you this information from the file here, when you asked them for it. Then there is no record that you did anything about it at all. Of course, it was too late to do anything about it because they had disbursed the money nearly 1 year before. This came in on October 27.

I bring this up so that you can know what we are going to try to find out if we can is whether or not these concerns did get permission from FHA to make these distributions. In this case it would indicate that they did not, but did notify you later.

Mr. THOMPSON. That notification undoubtedly is due to a letter that we had written them.

The CHAIRMAN. It says, "In accordance with your request." It doesn't say whether you wrote a letter.

Mr. THOMPSON. The request would have been, I am quite sure, by letter and would have been after an analysis of this—

The CHAIRMAN. Don't you think in all fairness that that \$800,000 should have gone to reduce the amount of the mortgage?

Mr. THOMPSON. That, sir, would be my feeling.

The CHAIRMAN. It ought to have gone to reduce the mortgage.

Here is where the record indicates that they put in \$15,000 and took out \$800,000.

Do you remember any discussion in FHA, at any time, as to making certain that these people would reduce their mortgages, rather than declaring dividends?

Mr. THOMPSON. I can recall a discussion as to whether or not we should analyze these projects to determine whether or not such a dividend was declared.

The CHAIRMAN. You had nothing to do with title I, did you?

Mr. THOMPSON. Well, the only thing that I have to do with title I, sir, is to report the loans that are reported for insurance and pay the claims, in a general, administrative way.

The CHAIRMAN. I don't know that there are any more questions of you gentlemen.

I want to read into the record at his time, because I think it is important in respect to title I, and because I think the committee has a problem on its hands when they start writing up this new legislation, to know what to do with title I, a letter from Indiana, addressed to me on April 25:

I am wondering if in the course of your present investigation of FHA irregularities you have any information or complaints involving—
and I shall name the firm—

Des Moines, Iowa. In December, 1952, I had a residing job done on my cabins by the above firm under an FHA loan and am currently making the corresponding monthly payments to Allied Building Credits, of South Bend, Ind.

He goes on to say:

The job turned out to be grossly short of the specifications—

and that the job was—

This is not a large deal, involving only \$2,844, but to me a considerable amount of money.

Here is another case, you see, where a Des Moines, Iowa, company did the selling to an Indiana buyer, and South Bend, Ind., did the financing. Just this morning we had a case where a Pittsburgh bank did the financing of a Tennessee sale.

Without objection I would like to place in the record at this time a wire from Lillian C. Hausman, representing the Fort Tryon Tenants Group, Inc., 245 Bennett Avenue, New York, and the Remodeling Contractors Association of Los Angeles, Calif.

Also a statement from the American Federation of Labor.

(The telegrams and statement referred to follow:)

NEW YORK, N. Y., April 22, 1954.

Senator HOMER S. CAPEHART,
Chairman, Senate Banking Committee,
Senate Office Building, Washington, D. C.

HON. SEN: The Fort Tryon Tenants Group, Inc., represents 341 families who occupy the section 608 project consisting of 7 units, located at 192d, 193d Streets between Bennett Avenue and Broadway, New York 33, N. Y.

This section 608 project started out with high rentals. Shortly after the commencement of the leases the landlord applied for and received an increase from the FHA on figures which the FHA refused to show the tenants representatives on the ground that they are confidential.

Subsequently another rental increase was applied for and granted under the same circumstances.

The tenants therefore feel that there should be a thorough investigation of this project particularly in view of the basic high rentals and subsequent increases. Furthermore, complaints are made by many tenants that they are being charged for nonexistent mythical half rooms. This, too, merits close scrutiny and investigation. We respectfully request your prompt attention in this matter.

FORT TRYON TENANTS GROUP, INC.,
LILLIAN C. HAUSMAN, Secretary.

BEVERLY HILLS, CALIF., April 25, 1954.

HOMER E. CAPEHART,
Honorable United States Senator,
Washington, D. C.

We laud the expose that your committee and yourself has made in the racketeers misuse of title I FHA financing in the home modernization field believing that modernization and remodeling contractors and homeowners in this country should not be injured by the fine assistances that title I FHA has offered to them. We suggest that the act as amended in December of 1953 should go a long way to remedy the misuse. It can be noted that subsequent to the adoption of the corrections, the last 4 months has resulted in negligible reports of misuse. Also note the financial institutions report that there is perceptively a small ratio of losses and improper uses when the purchaser makes a direct title I loan—that is, comes into the lending institution to make the loan. We recommend more use of this type of lending. We further recommend the extension of terms of title I to 60 months from the present 36 months and from a maximum amount of \$2,500 to maximum allowable loan of \$3,000 as proposed. Good builders are needed

everywhere and there is a need for rehabilitating in millions of American homes. The sole interest of our remodeling contractors association is to combine the interest of reputable remodeling contractors for a high standard of effect in dealing with the public. May we offer our services in any way.

REMODELING CONTRACTORS ASSOCIATION,
526 South Alondale, Los Angeles, Calif.

STATEMENT BY HARRY C. BATES, CHAIRMAN OF THE HOUSING COMMITTEE OF THE
AMERICAN FEDERATION OF LABOR

Disclosures of widespread frauds in the programs of mortgage insurance administered by the Federal Housing Administration have shocked the country. They have revealed practices carried on under the very nose of FHA officials, which have cost American families and the Federal Government hundreds of millions of dollars.

These disclosures have focused attention on the glaring inadequacies in the Government's programs of financial assistance for private homebuilding and renovation. The American Federation of Labor has repeatedly called the attention of Congress to the deficiencies in the legislation providing for these programs and in their administration which would encourage evil practices to thrive. These deficiencies are the result of a complete misconception of the proper and necessary role of the Government in housing. They stem from the notion that an agency of the Government can divorce itself from serving the broad public interest and instead serve exclusively a private commercial interest. The attitude of the FHA throughout has been: We serve the mortgage lenders, home builders, and the real-estate dealers, we have nothing to do with home buyers; we have no contact with the public. This is not far from the attitude of "The public be damned."

Yet, one affirmative responsibility of the Government in housing is to provide to the public information and assistance which would help make it possible for more families to have better living accommodations. The real justification for Government guaranties and other housing aids is to help to get good housing within the reach of families who need it. Any direct or indirect assistance to builders, contractors, dealers, mortgage lending institutions or others involved in the building, renovation, or financing of homes, can be justified only to the extent that such assistance will contribute to tangible benefits to families who need housing. Such assistance is not justified if it merely increases the profits of homebuilders or lenders.

The FHA programs have consistently neglected the consumer interest in housing. The FHA programs and the FHA as an administrative agency have concentrated on serving the economic interests of the builders and mortgage-lending institutions. This misplaced attitude has resulted from a misguided belief that only by assuring unduly generous rewards to builders and bankers in transactions involving no risk to them would it be possible to sustain an adequate level of residential construction.

It is now all too apparent that this interpretation of what has been the prevailing attitude in the FHA programs is most charitable, to say the least. The fact is that these programs have been developed and administered by Government officials who, almost without exception, have themselves been part and parcel of the close-knit fraternity with the home-building and home-financing interests. The official press releases of the FHA itself, announcing appointments and resignations in that agency make it quite clear that its top officials have nearly all come from home-building or mortgage-finance firms. After serving a term in the FHA, most of them eventually return to more lucrative jobs in the industry. No wonder these officials have given their first loyalty to the home builders and mortgage financiers and a short shift to the interests of consumers.

The American Federation of Labor has sought for many years to bring to the attention of the Congress these basic inadequacies in the FHA programs and in the agency which has administered them. Anxious to avert just such fraudulent abuses as have come to light in the current disclosures, we have repeatedly urged in testimony before congressional committees legislative changes which would prevent such abuses and protect the consumer against fraud and loss of investment.

For example, in 1946 when section 608 of the National Housing Act was being amended to authorize a system which made possible fraudulent appraisals

and scandalous windfall profits, the A. F. of L. strongly opposed the enactment of this amendment and urged the complete repeal of title VI. At that time we said:

"We reiterate our vigorous opposition to the extension of title VI. * * * We believe that the form in which this title is proposed will do nothing but fleece the veteran and the taxpayer by having the Federal Government underwrite mortgage loans at excessive interest rates for emergency-built homes of questionable quality, financed without any risk to the lender. What justification is there for a 4-percent interest rate when a 90-percent commitment by the Government gives the lender an effective 100-percent guaranty and renders the loan absolutely riskless? * * * Clearly, then, this provision is designed to benefit not the veteran but the speculative builder."

To the extent that it still can be done, the wrongs that have already occurred must be righted. Rent reductions should be secured for tenants in overvalued 608 projects whose tenants have been forced to pay rents 15 to 25 percent higher than justified. Likewise, every effort should be made to reimburse homeowners who have been fleeced by unconscionable prices charged by unscrupulous dealers and contractors for shoddy home repairs financed by FHA-insured loans under the title I program. Such rightful restitution for past abuses should not be neglected in the zeal to make sure that similar abuses do not occur in the future.

But whatever can be done to remedy these wrongs, it is essential that legislation be enacted now to introduce necessary safeguards in the basic FHA law and in the procedures and requirements of the administrative agency to protect fully the financial interests of consumers and of the Federal Government. To this end we make the following specific recommendations:

1. Mandatory builder's warranty.—We recommend, as we have so rightly done in the past, that every builder of FHA-insured housing, or receiving other financial assistance under the program, should be required to sign a builder's warranty against structural defects that may develop within the first 2 years after completion.

For the average family, purchase of a home usually involves investment of its entire savings. It represents a much more important financial undertaking than any other purchase. Yet the consumer is protected by a warranty in many of his household purchases while he has no comparable protection when he invests his savings in a home. Home purchasers must have this minimum protection of their investment.

There is no valid reason why it should not be possible to institute a workable and effective requirement for a builder's warranty. Such a warranty should be included among the closing documents required by the FHIA and VA before commitment to insure or guarantee is issued.

The warranty would constitute a legal obligation on the part of the builder to the purchaser for a specified period. This would include:

1. The builder would guarantee that the house as sold to the purchaser conforms with the plans and specifications as filed with the FHA or VA.

2. The warranty would also set forth that for a period of 2 years after occupancy, the builder would agree to make good any structural defects which might arise or would compensate the purchaser for any expense he might have in order to repair such deficiencies.

The first part of the requirement is quite clear and should involve no difficulties. However, taken alone, it would not provide sufficient protection to the home purchaser because structural defects might arise which were clearly the fault of the builder.

The legislation need not list the specific defects which should be included in the warranty. This could be a matter for administrative regulations. Some of the items which these regulations should cover are obvious. The home purchaser ought to be protected against flooded basements, wet walls, defects in mechanical equipment, or other defects which may result from poor workmanship or materials. The required warranty including these and other items, can be drawn up on the basis of the best practice in what a number of builders are now voluntarily including in warranties they are furnishing to their customers. This information can be collected and analyzed in the Housing and Home Finance Agency and a workable and effective warranty can be drawn up for use in the FHA and VA programs.

Once the requirement of the warranty is instituted, most builders will no doubt agree to make good on any defects legitimately claimed by home purchasers. If the builder thinks that the complaint is not legitimate or that he

is not at fault, the issue can be settled in court as under any other type of legal and binding contract. Both the builder and the home purchaser might invoke expert judgment in their behalf. The issue would then be adjudicated.

To keep litigation to a minimum, the FHA and VA might consider including a standard arbitration clause in the warranty. In the event of a dispute arising under the warranty, the parties could agree on a single arbitrator or an arbitration board.

2. Protection of homeowners under title I program.—The abuses that have occurred under the title I program have resulted from the irresponsible attitude of the FHA in its administration of the program.

First, the FHA has maintained that it deals only with the bank making the loan and that it has nothing whatever to do either with the firm which does the work or supplies the equipment or with the homeowner who borrows the money. Acting on that premise, the FHA has consistently refused to police its loans even though dealers and contractors have misrepresented the transactions as having the complete endorsement of the FHA.

Second, although the loan is made to the customer and the customer is required to pay it back to the bank in monthly installments, he does not obtain the funds directly from the bank. Instead, it is the dealer or contractor who gets the cash directly from the bank. The banks seldom attempt to investigate the qualifications of the dealers or the worthiness of the loan so long as they are assured that the customer will pay back the loan. Thus if the bank makes a loan, insured by the FHA, of \$2,000 for a job which is worth no more than \$500, the bank still risks no loss since the loan is insured by the FHA. On the contrary, the bank earns a good rate of interest on the loan for an amount which far exceeds the actual worth of the work actually done.

To prevent further exploitation of homeowners and fraudulent profiteering by dealers and contractors under the title I program, we recommend:

1. Dealers and contractors operating under the title I program should be licensed by the FHA. The FHA should not issue a license to a dealer or contractor unless it is satisfied as to his financial competence, his qualifications to do the job, and his past record in the industry.

2. The contractor or dealer should be required to certify to the lending agency the actual costs involved in the job. The lending agency should be required to keep a record of these costs for spot inspection by the FHA.

3. Title I loans should be made directly to the customer and not to the dealer or contractor who should receive his reimbursement directly from the customer. In this way, the homeowner will know exactly how much he is paying for the job and can hold up payments if the dealer or contractor fails to make good on his contract.

4. Title I loans should be limited to genuine home repair, renovation and modernization. They should not extend to luxury-type projects such as swimming pools, airplane hangars, and other types of structures or equipment which are not integral to the provision of living accommodations.

3. Safeguards in valuation procedures for determining maximum mortgage amounts for FHA insurance.—There is no need for us to describe in detail the abuses which have occurred under the FHA 608 program and also under other FHA programs as a result of improper valuation procedures for determining maximum mortgage amounts for FHA insurance. It would be well, however, to bring to the attention of the committee one aspect of these abuses with which we are particularly concerned.

For many years, the A. F. of L. has urged that housing built under the FHA or VA program, as well as all other programs involving Federal financial assistance, be made subject to the requirement for the payment to all employees of wage rates prevailing in the locality as determined by the Secretary of Labor. We have strongly urged that the Federal Government should not be in the position of helping to make funds available for projects which involve payment of substandard wages for any employees.

We have succeeded in securing the enactment of such requirements for some of the FHA programs, including the FHA 608 program. We have found, however, that in numerous instances under that program builders flagrantly disregarded the requirement to pay the prevailing wage to their employees. When the A. F. of L. brought these cases to the attention of the FHA Commissioner, he refused to take any remedial action. The FHA not only refused to insist that builders meet the legal requirement to pay the prevailing wage but, as a matter of fact, made insured loans on the basis of prevailing wages to builders who were actually paying less than the prevailing rates. These builders employed such

illegal practices as, for example, paying journeymen craftsmen apprentice rates. Since the rents in these projects were based on the amount of the mortgage, in effect, the tenants of the projects and the workers who built them, subsidized the unscrupulous builders who obtained the fraudulently excessive loans insured by the FHA.

To correct these abuses, we urge that the requirements now applying to military (title VIII) and defense (title IX) housing be extended to all housing assisted by Government insurance or guaranties. Adoption of such requirements would mean that the mortgagor would be required to certify on completion of the physical improvements on the mortgaged property, the amount, if any, by which the proceeds of the mortgage loan exceeded the actual costs of the physical improvements. The mortgagor within 60 days after such certification would be required to pay to the mortgagee for application to the reduction of the principal obligation of the mortgage the amount, if any, certified to be in excess of actual cost.

CONCLUSION

These are our specific recommendations designed to prevent specific abuses your committee is now considering. Yet, we emphasize that the problem must be considered in the broader context of the entire Government-housing policy. The overriding principle we have urged—that the Government's role in housing should be to help make more good housing available to more people—should not only be applied to the particular problems under investigation but also and with equal vigor to all housing legislation. In addition, as the A. F. of L. pointed out in testimony before this committee earlier this year, it is essential that housing legislation be geared to the present realities of the economic life of the Nation. It must be responsive to the immediate economic conditions of the current business recession, and it must contribute to the long-term health and balanced growth of American communities and of the whole economy.

We urge favorable consideration of our recommendations for assuring necessary safeguards and protections to consumers, wage earners, and the Government under these programs of Federal insurance and guaranties. We also ask that the recommendations we submitted on March 25 be given favorable consideration as the major step toward achieving a housing program responsive to the Nation's needs.

The CHAIRMAN. I want to call Mr. Mason.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth so help you God?

Mr. MASON. I do.

TESTIMONY OF NORMAN P. MASON, ACTING COMMISSIONER, FEDERAL HOUSING ADMINISTRATION

The CHAIRMAN. You are the present Acting Commissioner of the FHA?

Mr. MASON. That is correct, sir.

The CHAIRMAN. How long have you been in that position?

Mr. MASON. Since April 15.

The CHAIRMAN. Of this year?

Mr. MASON. This year, 1954.

The CHAIRMAN. Now, Mr. Mason, do you have any recommendations as a result of your 2 weeks in office, any recommendations to make to us as to what we ought to do with the bill that is before us with respect to tightening it up to make certain that the same alleged irregularities cannot happen again?

Mr. MASON. Well, Senator Capehart, I couldn't have sat in these hearings of yours and not hoped that something was going to be done to make the Federal Housing Administration do a better job for the American public. I have been learning. I am not an expert, as you know, at this stage, in the operation of my agency. I couldn't expect

to be in so short a time, but I certainly have learned in your committee hearings here, more rapidly than I could learn any other way, some of the unfortunate things that are happening in our agency.

I would just like to say in starting out that I think these hearings are very worthwhile things, for 2 or 3 points. In the first place, we want to assist our citizens to use this financing help and still protect those people from the cheats and the swindlers. I think we need to find ways to prevent recurrence of this fraud and unethical practices, if it is fraud, in these large-scale loans, and I think the other worthwhile thing you are doing is bring to light unethical practices so that the ethical people in the building industry won't be smeared with the same tar.

Perhaps, I could tell you some of the things I have done in the 2 weeks, that you might be interested in. I did the usual things at first. I got the staff together and talked with them and I issued memorandums and so on, but the first real step I took was to set up a review committee in my agency—not an investigation, but the technical men in my agency to see what loopholes there might be in other programs because I felt that I certainly should tell this committee what I could find about better ways, as we say it, for changes in the law, and I also wanted to know what was needed in administrative actions to tighten up the law.

I have four subcommittees, one on organization, one on the title I repair-and-remodeling loan program, one on rental-housing loan programs, and one on for-sale-housing loan programs. These committees are at work now.

Organizationally, it is too early for me to make positive assertions but my experience has always been in business that when I went into a new company, I could find things that were being done wrong there. I didn't have to look very far, I just had to sit in these hearings to understand some of the things that have been done wrong, and I am especially reviewing the things that have come up in the testimony, where people here have indicated that they didn't know what their jobs were, or what they were doing. I have such things to do as workload measurement, whether authority is set in the right line and things of that kind.

I have written a personal letter to each one of these 75 field directors around the territory and told them a thing that I learned in your committee and that was that the general impression is that our agency is not thinking about the public but we are thinking only about the builders and the lenders. I said we have to think about the builders and lenders but the public is of primary importance and I hoped they would do that.

I have also sent memoranda to the lending institutions under the title I program because I felt it was very important that right away we should tell them that we expect them to exercise not only caution as to the proper and legal method of handling, but to use some commonsense about it, too. And then right now I am working on a program to get a public-information service in my agency so that the public can know what goes on in the Federal Housing Administration.

These committees have not reported to me yet. They are supposed to get their reports in this week and I will make those recommendations

you in writing, or I will come back here, whichever you prefer. I've intended to sit in and listen to some of the discussion that is going on, and sit in on your meetings here.

The CHAIRMAN. At May 18 we are going to write up this proposed legislation that has been sent to us by the House. We are going to discuss in a few minutes on our hearing aspect of this matter and on May 18 we are going to start writing up the bill. We certainly want your recommendations as to what we should and should not do.

Mr. MASON. I appreciate the opportunity.

The CHAIRMAN. I want to say this to you, we are going to use our own judgment this time rather than follow the recommendations that we have had in the past, but we still want them.

Mr. MASON. I think in view of what has happened, you are probably well justified in making such a statement.

Could I answer any questions?

The CHAIRMAN. Go ahead if you have anything further.

Mr. MASON. For instance, on the section 213 cooperative program, this program I certainly think there should be a provision made so that we can't mortgage out. I think there should be one in the section 207 program. The section 207 program is not as vulnerable as the section 213, because of a different sort of value that is used in it, and because the loan to value ratio is different. I believe in both programs would not be an unjust burden on the institutions to ask them to do so. And, sir, having sat here and listened to what has gone on, I believe that not only should they not be able to mortgage out but they should not be able to get beyond the percentage of the loan that they were supposed to get in the first place. I see no reason why, if a man is supposed to be 90 percent of the value, why it should be greater.

The CHAIRMAN. Then you recommend that we write the law so that, if it calls for 80 percent, it will be 80 percent of the actual cost?

Mr. MASON. Yes, sir.

The CHAIRMAN. If it is 90, it will be 90 percent.

Mr. MASON. Yes, sir.

The CHAIRMAN. If it is 95, it will be 95, and no more and no less.

Mr. MASON. Well, it could be less, but it shouldn't be more.

The CHAIRMAN. Well, I don't know why it should be less particularly.

Mr. MASON. They could have a mortgage for a smaller amount is all I meant.

The CHAIRMAN. My point is, if we agree to take 85 percent of the cost, then it ought to be 85 percent of the cost unless the man voluntarily wants to reduce the amount of his mortgage. That is something else again.

Mr. MASON. This is a personal opinion I have just gained in these hearings listening, but I believe that probably my agency committees will report along this same line. I hope they do.

The CHAIRMAN. We want you to give a lot of thought as to whether you think we should go to 100 percent as the new bill calls for, under section 221.

We also want you to give a lot of thought to whether we ought to increase from \$2,500 to \$3,000 the title I individual loans and increase the terms.

Mr. MASON. Those are good questions. The first one is a very tough question, but it has to have an answer.

On the section 203 loans, the individual loans, I am not so sure that we want—in fact, I believe that, so far as my information goes now, what I have learned, we probably do not need this same caution against mortgaging out, because, as I study these, I see that the individual loan, the section 203 loan, there is no loan made to the builder. I mean his insured loan is made only to the buyer and I believe the danger there of the abuse is much less, and I don't think we want to put unnecessary burdens on people where they are not needed.

So far as title I is concerned, I think we need to put greater burden on the lender. The lender is one of the two people in this transaction who gets paid. He should be a responsible businessman, and should be able to sort out from among his customers, the responsible from the irresponsible, and I believe that—

The CHAIRMAN. He is on the ground, but if Pittsburgh is doing business in Tennessee, it is a little hard to go down there and check the Tennessee sale.

Mr. MASON. I would say it would be very difficult unless Pittsburgh had a branch office in Tennessee. In many of those cases where there was widespread lending, there were cases of branch offices. For instance, there were finance companies that use FHA title I. They use it now much less than they used to, but they did do business over the country, these finance companies.

I have listened to these different proposals on coinsurance. I have had 3 or 4 made to me and I will come up and report to you my recommendation which you can use or toss out as you please, but at least I am willing—I am not only willing, but I am glad to do that.

The CHAIRMAN. We want all the suggestions and thoughts and ideas and help we can get. The point I wanted to make is that I think this has taught us a lesson, that Congress ought maybe not to take everything for granted that these administration people tell them, and check a little deeper into a lot of these things.

Mr. MASON. You can appreciate, I think, my feelings come into it.

The CHAIRMAN. No longer are we going to take at face value a lot of statements that witnesses make before us.

Mr. MASON. You can appreciate my feelings, coming into an organization and seeing some of the things that have been going on. I only came down here because I believe in the American people and don't believe in swindling the American people or making it possible to do so.

The CHAIRMAN. You don't want to see them get cheated.

Mr. MASON. No, sir.

Those are the suggestions that I have, Senator Capelhart. As I said, I will be very happy to make a formal written report to you on the questions that you have asked me, and any other things we find, because I think we will find things we have not known about beforehand.

The CHAIRMAN. I think inasmuch as there is another vote and we are going to have lots of time here in the future to get into every aspect of this inquiry and investigation, that, if there is no objection on the part of the committee members, we will stand in recess to the call of the Chairman.

Mr. MASON. I say that my Federal Housing Administration stands ready at any time to bring any people up here that you want to see and talk to.

The CHAIRMAN. Thank you and we possibly will want them.

We will now stand in recess subject to the call of the chairman and start writing up the legislation on May 18.

(Whereupon, at 3:40 p. m., the committee recessed to reconvene at the call of the Chairman.)

APPENDIX

The following title I regulations, revised to December 18, 1953,
were ordered inserted in the record, see p. 1351 :)

PROPERTY IMPROVEMENT LOANS

UNDER

TITLE I

OF THE

NATIONAL HOUSING ACT

REGULATIONS

GOVERNING CLASS 1 AND 2 LOANS

EFFECTIVE JULY 1, 1947

INCLUDING ALL AMENDMENTS TO DECEMBER 18, 1953



ISSUED BY

FEDERAL HOUSING ADMINISTRATION

WASHINGTON 25, D. C.

TITLE I**PROPERTY IMPROVEMENT LOANS****GENERAL ADMINISTRATIVE POLICY APPLICABLE TO
PROPERTY IMPROVEMENT LOANS REPORTED FOR
INSURANCE UNDER TITLE I OF THE NATIONAL
HOUSING ACT**

The Title I program provides an instrument by which financial institutions, the building and allied industries, and the Federal Government combine to assist borrowers to make eligible improvements to their property. The operation of the Title I program is based on the good faith of all concerned—the good faith on the part of the individual borrower who applies for and receives a loan, the good faith of the dealer or contractor in carrying out the terms of his contract and rendering proper service to the customer, the good faith of financial institutions in acquiring and servicing Title I loans and the good faith of the Federal Housing Administration in carrying out its obligations and responsibilities. While certain regulatory measures are necessary to effectuate mutual objectives, a large responsibility is placed upon participating lending institutions for the exercise of sound discretion and prudent practices in carrying out the program.

The guiding principles set forth herein are to assist the lending institution in the proper operation of its Title I lending activity.

These principles may be interpreted as the general administrative policy of the Administration but they are not regulatory. This statement of policy is presented to clarify certain questions which may arise and to offer helpful suggestions gained by the Federal Housing Administration in the light of its experience over a number of years.

QUALIFICATIONS FOR A CONTRACT OF INSURANCE

Under Title I of the National Housing Act, as amended, the Commissioner is authorized and empowered to insure banks, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, and other such financial institutions, which he finds to be qualified and approves as eligible for credit insurance, against losses which they may sustain as a result

ligible property improvement loans. Application for a Contract Insurance may be made upon the proper form to the Federal Housing Administration.

A. The following institutions are eligible to hold a Contract of Insurance:

1. Financial institutions which have held a Contract of Insurance and have demonstrated to the Commissioner their ability to conduct satisfactorily their Title I operations.
2. Members of the Federal Reserve System, of the Federal Home Loan Bank System, and institutions whose deposits are insured by the Federal Deposit Insurance Corporation.
3. Any Federal, State or municipal governmental agency that is or may hereafter be empowered to conduct an installment lending operation.

B. Any lending institution not hereinbefore mentioned may qualify for a Contract of Insurance upon application, if it possesses the following qualifications and meets the following conditions to the satisfaction of the Commissioner:

1. It is a chartered institution or other permanent organization having succession and having sound capital funds properly proportioned to its liabilities and to the character and extent of its operations.
2. It is subject to inspection and supervision by a governmental agency; or if not subject to such inspection and supervision, it submits an independent detailed audit of its books made by an accountant satisfactory to the Commissioner, and so long as it holds a Contract of Insurance, it files with the Commissioner similar audits at least once in each calendar year.
3. Its principal activity is lending funds, or investing in mortgages, consumer installment notes, or similar advances of credit, and it demonstrates its ability to pass on borrower's credit and to effect collections.
4. It is permitted by statute in the jurisdiction(s), in which it proposes to operate, to make loans in the maximum amounts and maturities as prescribed by the Act.
5. It has lending quarters and facilities that are in keeping with the accepted facilities of financial institutions making consumer credit type loans.

TERMINATION OF A CONTRACT OF INSURANCE

Contract of Insurance may be terminated with respect to any business at any time upon 5 days written notice from the

Commissioner where it appears to the Commissioner that a financial institution is not exercising proper credit judgment, is not taking the steps which may be considered reasonably necessary to safeguard its outstanding loans, or is not exercising proper care in selecting those from whom it purchases notes. Cancellation of a Contract of Insurance will in no way adversely affect the insurance reserve on loans theretofore accepted for insurance recordation.

If an insured elects to discontinue the making of Title I loans may request a termination of the Contract of Insurance and all insurance reserves earned by such insured as of the date of termination the Commissioner will remain to its credit until (1) exhausted by filing of claims for loss, or (2) the liquidation of all Title I loans in the portfolio of such insured. It is necessary that notice in writing of the contemplated action be given to the Commissioner sufficiently in advance of the desired effective date to permit an orderly processing of pending loan reports.

INSURANCE PROTECTION AFFORDED

The total amount of Title I loans with respect to which the Commissioner may grant insurance and which may be outstanding at any one time is set at a maximum of \$1,750,000,000.

An insurance reserve is established for each insured equal to 10 percent of the aggregate net amount advanced by it on all eligible loans. It is the lending institution which is insured and not the individual loan. From the reserve which may be accumulated there is deducted the amount of the claims paid to such insured. On January 1 or July 1 next following the expiration of a period of 30 months after the issuance of the Contract of Insurance to a lending institution by the Commissioner the amount of insurance reserve to the credit of such insured shall be adjusted by carrying forward into the next semiannual period four-fifths of the unused reserves outstanding on each such date. The insurance reserve of each insured will be adjusted in like manner on each subsequent semiannual period.

The amount of unused reserves to be carried forward at the beginning of each semiannual period will be determined according to the record of the Commissioner and a statement showing the amount of such unused reserves will be furnished to each insured as promptly as possible after the close of each semiannual period.

Each individual loan is reported to the Commissioner and is accepted by him for insurance recordation in reliance upon the certification of the institution that the loan was made in accordance with the provisions of all applicable Regulations. If default occurs and claim for reimbursement of loss is made by the lending institution, the claim will be paid upon proper audit and finding that the loan was handled in accordance with the Regulations.

Where reasonable credit judgment is exercised and the institution makes a fair volume of loans, the insurance coverage afforded is virtually a 100 percent guarantee against loss.

INSURANCE CHARGE

The Regulations provide for an insurance premium charge of one-fourths percent per annum of the net proceeds of each loan reported for insurance, except that the charge is one-half percent per annum on class 1(b) loans in excess of \$2,500, exclusive of financing charges, and on class 2 (b) loans having a maturity in excess of 7 years. A charge for a full month is made for the fractional period of a month of more than 15 days but no charge is made for the fractional period of a month of 15 days or less. For example, in the case of a loan for a term of 36 months and 15 days a charge is made for 36 months and in the case of a loan for a term of 36 months and 16 days a charge will be made for 37 months. As an illustration of the computation of the insurance charge, if the net proceeds of a loan maturing in 36 equal monthly installments beginning 1 calendar month after the date of the loan is \$1,000, the premium charge would be $2\frac{1}{4}$ percent (3 years times one-fourths percent) of \$1,000 or \$22.50.

The lending institution will be billed once a month on all loans reported for insurance during the previous period, the receipt of which has been acknowledged by the Commissioner. Detailed information and instructions are available to lending institutions pertaining to the computation and payment of the insurance charge so as to avoid misunderstanding and assure the efficient handling of the matter with a minimum effort.

No part of the insurance charge may be passed on to the borrower directly or indirectly if such charge would cause the total payments made by the borrower to exceed the maximum charge permitted.

LENDING AREA

The Federal Housing Administration expects a qualified financial institution to confine its Title I business to the trading area usually served by the institution in its normal operations. It has been our experience that when an institution extends its lending operations beyond a territory which it services in its other lending activities, it cannot properly or profitably handle such business. A lending institution must be in a position to investigate credits, make periodic checks of the improvements being financed, and have its own employee or qualified representative make personal contact with delinquent borrowers.

LOAN CHART

The following chart is provided so that the maximum maturity, and financing charge of an eligible loan may be determined.

Type of loan	Type improvement	Maximum maturity	Maximum amount	Maximum financing charge
Class 1 (a)---	Repair, alteration, or improvement of an existing structure.	3 years 32 days----	\$2,500	\$5 discount per year.
Class 1 (b)---	Alteration, repair, improvement or conversion of existing structure used or to be used as an apartment house or a dwelling for two or more families.	7 years 32 days----	10,000	\$5 discount per year if \$2,500 discount per excess of \$2,500
Class 2 (a)---	Construction of a new structure to be used exclusively for other than residential or agricultural purposes.	3 years 32 days----	2,000	\$5 discount per year.
Class 2 (b)---	Construction of a new structure to be used in whole or in part for agricultural purposes, exclusive of residential purposes.	7 years 32 days. If secured by first lien, 15 years 32 days.	2,000	\$5 discount per year, \$3.50 discount if \$100 if maturity in excess of 7 years

The added 32-day period is provided in order to permit the making of 36, 84, or 180 monthly payments, as the case may be, even though there should be 2 calendar months to the first payment.

ELIGIBLE NOTES

In order that a note may be eligible it is necessary that it be a genuine signature of the borrower(s). The note must be valid and enforceable against the "borrower(s)" as defined in the Regulations. Also any signature in addition to the borrower(s), such as the co-borrower or endorsers, must be genuine. A note bearing the forged signature of any of the obligors, whether primarily or secondarily liable, is not insurable. In this connection, if the note is executed for and on behalf of a corporation or in a representative capacity, the note must contain the binding obligation of the principal. The note must stipulate the number and amount of the equal periodical payments, with the first payment not less than 6 days nor more than 2 calendar months from the date of the note. It is suggested that the date fixed by the lending institution for the first and subsequent payments should be made available to the borrower and correspond whenever possible with the date on which he receives his income.

Notes must contain a provision for acceleration of maturity in case of default, either automatically or at the option of the holder.

FINANCING CHARGES

The maximum financing charge allowed by the Regulations is intended to cover all expenses that may be incurred by the institution in placing the transaction on its books, except the following expenses that may be incurred in taking security for the loan: recording

ling fees, documentary stamp taxes, title examination charges and hazard insurance premiums. These costs may not be included in the face amount of the note nor paid out of the proceeds of the loan but they may be paid by the borrower as a separate item.

Although the standard formula for determining the charge to the borrower contemplates a monthly installment note, it is intended that the same resulting ratio shall apply in the case of a note on which there is only one payment (or any number more or less than 12) per year, as in the case of a farmer or a producer of livestock who is making payments in accordance with the dates on which his income is received. It is suggested that an interest-bearing note, at the lowest rate compatible with the locality and credit conditions, should be used where a note calls for seasonal payments.

LATE CHARGES

A late charge is to reimburse the insured for work involved in following the borrower for a delinquent payment. It is not a part of the original finance charge, which is determined at the time the loan is granted, on the basis that the note will be paid in accordance with its terms. The collection of late charges shall not be considered in computing the maximum amount which the insured institution may charge a borrower for discount, interest, or fees.

If the borrower makes a payment to be applied to his regular installment it is not permissible for the institution to deduct late charges that have been billed unless the borrower specifies such deduction. However, if in the absence of specific instructions from the borrower the institution advises the borrower in writing that a portion of his payment will be applied to late charges and the borrower expresses no objection, such application shall be considered permissible insofar as the FHA Regulations are concerned. Evidence supporting the application of late charges collected must be included in the file when a claim for loss is made. The showing of late charges incurred on Form H-7, "Title I Claim for Loss," will be considered as sufficient evidence of billing if the amount of the payment received includes an amount to satisfy the full amount of the past due installment, plus the amount of the late charge incurred. The Federal Housing Administration does not reimburse the institution for uncollected late charges.

It is not intended that late charges shall take the place of interest on the principal after the maturity of the whole obligation. Thus, a provision for such interest after maturity will not conflict with the limitations set forth in the Regulations which refers only to interest on late charges taken on a specific installment for failure to make that payment on its due date.

LUMP-SUM PAYMENTS

The acceptance of a voluntary payment of one or more installments prior to due date shall not be construed as increasing the maximum permissible financing charge as provided in the Regulations. However, if the prepayment sum exceeds two full installments it is recommended that the lending institution have a clear understanding with the borrower as to the date of the next payment. Too long a period should not elapse between the application of a lump-sum payment and the date for continuation of regular payments unless there are adequate reasons for an extended lapse of time. It is extremely important to maintain the paying habit of the borrower.

DISCOUNT FACTOR

A discount of \$5 on a \$100 note for a period of 1 year, with provision in the note for equal monthly installment payments, results in a ratio of 0.097166 of total charge paid by borrower to average amount outstanding on the debt during the period of the loan. This is the maximum charge that may be obtained from the borrower or any amount, of any maturity, and regardless of the number of installment payments.

On a 1-year monthly payment note, the discount factor is 0.0919. On a 24-month note, however, the discount factor is 0.0919 month note, 0.130282, etc. On a discount note of \$1,000 face value, the amount of discount for 12 months would be \$50; for 24 months, \$91.91; for 36 months, \$130.28.

GROSS CHARGE FACTOR

A lending institution desiring to ascertain the maximum amount of interest and fees it would be permissible to charge the borrower on any principal sum in order not to exceed the ratio of 0.097166 of charge to the borrower to average amount outstanding on the debt during the period of the loan, can do so by using the gross charge factor. Thus, on a 1-year note the gross charge factor is 0.097166; on a 24-month note, 0.101215; on a 36-month note, 0.149798. By taking a \$950 advance and multiplying by the proper gross charge factor the amount of interest and fees allowed for 12 months would be \$50; for 24 months, \$96.15; for 36 months, \$142.31.

TABLES OF CALCULATIONS

The following factor tables may be used to facilitate the computation of the maximum financing charges. A lesser factor may be taken and is encouraged by the Federal Housing Administration. In the center column of each table are installments of principal and maturity up through 36 months. In the left hand column are the gross charge factors. The amount of cash proceeds (the principal the borrower receives), multiplied by the gross charge factor

aturity, will give the maximum permissible amount of interest that may be charged the borrower. In the right hand column discount factors. The face amount multiplied by the discount for any maturity desired, will give the maximum permissible amount of discount that may be charged.

\$5 FACTOR TABLES

INSTALLMENTS PAYABLE MONTHLY

Age of mortgage (years)	Number of installment payments in which loan is to be repaid	Discount Factor based on \$1 of face amount
0	6	0.027559
9	7	.031373
7	8	.035156
6	9	.038911
4	10	.042636
3	11	.046332
2	12	.050000
0	13	.053640
9	14	.057252
8	15	.060837
6	16	.064394
5	17	.067925
4	18	.071429
1	19	.074906
0	20	.078358
8	21	.081784
7	22	.085185
6	23	.088561
5	24	.091912
3	25	.095238
2	26	.098540
0	27	.101818
8	28	.105072
7	29	.108303
6	30	.111511
4	31	.114695
3	32	.117857
1	33	.120996
0	34	.124113
8	35	.127208
6	36	.130282

INSTALLMENTS PAYABLE QUARTERLY

Gross Charge Factor (based on \$1 of net proceeds)	Number of installment payments in which loan is to be repaid	Discount Factor based on \$1 of face amount
0.024291	1	0.023715
.036437	2	.035156
.048583	3	.046332
.060729	4	.057252
.072874	5	.067925
.085020	6	.078358
.097166	7	.088561
.109312	8	.098540
.121457	9	.108303
.133603	10	.117857
.145749	11	.127208
.157895	12	.136364

INSTALLMENTS PAYABLE SEMIANNUALLY

Gross Charge Factor (based on \$1 of net proceeds)	Number of installment payments in which loan is to be repaid	Discount Factor based on \$1 of face amount
0.048583	1	0.046332
.072874	2	.067925
.097166	3	.088561
.121457	4	.108303
.145749	5	.127208
.170040	6	.145329

INSTALLMENTS PAYABLE ANNUALLY

Gross Charge Factor (based on \$1 of net proceeds)	Number of installment payments in which loan is to be repaid	Discount Factor based on \$1 of face amount
0.097166	1	0.088561
.145749	2	.127208
.194332	3	.162712

1.—Financial institutions desiring \$4 or \$3.50 Gross Charge or Discount, or \$5 factors for maturities in excess of 3 years, may secure same by to the Federal Housing Administration, Washington, D. C.

PREPAYMENT REBATE

Where the prepayment of an installment is merely a voluntary payment prior to its due date, such payment shall not be construed as changing the ratio provided for in the Regulations. However, if the balance outstanding on the note is paid in advance, the lending institution must make a rebate at a rate not less than 6 percent per year of the amounts so paid in advance of their due dates if the lending institution has taken the maximum charge permitted. If a

lesser charge has been taken, the rebate must be at not less than a proportional rate. The proportional rate to be used where a \$4 discount has been taken is 0.0475 and if a \$3.50 discount has been taken the rate is 0.0414. The unearned portion of the original charge retained by the lending institution represents compensation to it for making the loan and setting the transaction up on its books.

The formula for arriving at the minimum rebate is:

$$\frac{\text{Unmatured balance} \times 6 \text{ percent}}{M} \times \frac{N+1}{2} = \text{minimum rebate}$$

NOTE.— N =number of periods anticipated. M =number of payments per year. "Unmatured balance" does not include past due amounts. Substitution of any greater percentage for 6 percent is encouraged.

Example

Date of Note, June 15, 1950; face amount, \$344.94; net proceeds, \$300; finance charge, \$44.94; 36 payments of \$9.58, beginning July 15, 1950; prepaid in full, August 15, 1951.

$$\frac{\$344.94 - (14 \times \$9.58) \times 0.06}{12} \times \frac{22+1}{2} = \$12.12 \text{ (minimum rebate)}$$

The following table of factors may be used in lieu of the formula to calculate the minimum rebate which must be returned to the borrower. These factors apply where the maximum \$5 rate was used and where payments were by monthly installments.

PREPAYMENT REBATE FACTOR TABLE

To determine prepayment rebate, multiply amount of monthly installment by the applicable factor.

Number months anticipated	6-percent rebate factors	Number months anticipated	6-percent rebate factors
35-----	3.150	17-----	0.765
34-----	2.975	16-----	.680
33-----	2.805	15-----	.600
32-----	2.640	14-----	.525
31-----	2.480	13-----	.455
30-----	2.325	12-----	.390
29-----	2.175	11-----	.330
28-----	2.030	10-----	.275
27-----	1.890	9-----	.225
26-----	1.755	8-----	.180
25-----	1.625	7-----	.140
24-----	1.500	6-----	.105
23-----	1.380	5-----	.075
22-----	1.265	4-----	.050
21-----	1.155	3-----	.030
20-----	1.050	2-----	.015
19-----	.950	1-----	.005
18-----	.855		

REFINANCING

The Federal Housing Administration encourages lending institutions to utilize the refinancing privilege permitted by the Regulations in meritorious cases and where the facts and circumstances of the particular transaction justify retention of the account. Such action should be taken when it will assist the borrower in paying his obligation in full.

In refinancing notes previously reported for insurance, with or without an additional advance, the unearned charge must be refunded to the borrower. If no additional advance is made, the financial institution may assess the borrower a \$2 handling charge.

For simplicity in handling, it is suggested in the refinancing of an account that it be effected on the due date of an installment.

The formula for computing the amount of the unearned charge is:

$$\begin{aligned}\text{Charge for full term} \times \text{proration factor}^1 &= \text{earned charge} \\ \text{Charge for full term} - \text{earned charge} &= \text{unearned charge}\end{aligned}$$

Example

Date of note, June 15, 1950; face amount, \$344.94; net proceeds, \$300; finance charge, \$44.94; 36 payments of \$9.58, beginning July 15, 1950; refinanced, August 15, 1951.

$$\$44.94 \times 0.62012^2 = \$27.87 \text{ (earned charge)}$$

$$\$44.94 - \$27.87 = \$17.07 \text{ (unearned charge)}$$

The table of factors on the preceding insert may be used in lieu of the formula to calculate the full unearned financing charge which must be credited to the borrower's account.

Each refinancing transaction should be reported within 31 days from the date of refinancing on the Title I Refinancing Report, Form FH-5.

CREDITS

In applying for and accepting a Contract of Insurance the lending institution assumes certain responsibilities. One of these is the responsibility of applying sound principles in the evaluation of credit.

CREDIT INVESTIGATION AND ANALYSIS

The lending institution in considering the credit of the applicant must bear in mind that available insurance coverage does not relieve it of the responsibility of exercising the care that a reasonable and prudent lender would take if the loan were not being offered for insurance.

¹ The proration factors for the various periods are published in a separate booklet, available upon request.

² Proration factor for the fourteenth period of a 36-payment loan.

The applicant must furnish the lending institution with an executed Credit Application on a form approved or provided by the Commissioner. The lending institution should obtain sufficient supplementary information to satisfy itself that the applicant represents a reasonable credit risk. If in the judgment of the lending institution it is deemed necessary, an individual credit report from a reputable credit reporting agency should be obtained plus such other information as is considered desirable. On the basis of all information before the lending institution it must then pass upon the reasonableness of the credit risk.

Consideration should be given to the applicant's ability to pay, as determined by the assurance of a steady and sufficient income that will allow, after the payment of ordinary living and operating expenses plus other obligations, sufficient overage to make payments on his Title I loan. Income from rents and other sources should be given consideration creditwise only when such income is verified and when it is determined that the income is of a sufficiently permanent nature to continue for the life of the loan.

The applicant borrower must have a reputation for meeting his obligations promptly. The lending institution should satisfy itself that approval will not result in an overextension of credit. The institution's profit depends upon the type of credits approved and to make a loan to a borrower knowing that the additional indebtedness cannot be repaid, benefits no one.

SECURITY

In some cases it may be advisable to obtain security in the form of endorsers, comakers or collateral. The lending institution, however, should never accept security as a substitute for an otherwise unacceptable credit risk. If a security instrument is taken it should be recorded in accordance with the law of the applicable jurisdiction, and the cost may be collected from the borrower in addition to the maximum permissible financing charge.

RATIO OF LOAN TO VALUE

It is important that the lending institution, when considering an application for a loan, determine that the value of the proposed improvements bears a proper relationship to the value of the property being improved and that the amount of credit applied for is in proper proportion to the value of the work to be done.

Lending institutions are encouraged to take steps to detect any notes based on inflated charges. It is obvious, of course, that notes which finance excessive charges represent unsound loans on which collection will be difficult if not impossible. More important than that, of course, is the fact that lending money under such conditions is a practice which is a grave disservice to the people of the community.

APPROVAL OF THE COMMISSIONER

In the event the proposed loan would result in a total principal outstanding in excess of \$5,000, exclusive of financing charges, the borrower, the prior approval of the Federal Housing Commissioner must be obtained before the transaction will be eligible for insurance. The principal amount outstanding to any borrower applies to one who, as an eligible borrower on a proposed loan, is primarily and secondarily liable on any prior Title I obligation. Such approval may be obtained from the local insuring office of the Federal Housing Administration having jurisdiction over the site of the property to be improved.

In submitting the transaction for approval, all papers bearing on the transaction, including the recommendation of the institution, the Credit Report, balance sheet, profit and loss statement, credit reports, and other supporting papers, should be forwarded to the local FHA office in order to insure prompt consideration.

ADDITIONAL LOANS

If an additional loan is made to the same borrower, it is required that the lending institution obtain a new Credit Application in order to determine whether there has been any change in the borrower's condition of solvency and ability to pay since the previous loan, and also in order to determine the eligibility of the use of the proceeds of the loan.

A borrower may obtain any number of loans to improve one or more properties owned by him. However, it is not intended that a borrower be permitted to circumvent the specific limitations which the Federal Housing Act places upon the various classes of loans by obtaining more than one loan for a single job. In accordance with the Act and Regulations a borrower may secure an amount not in excess of the stated maximum amount for one complete job which he undertakes at any given time. If, at a later date, as a separate job, he undertakes additional work he may secure another loan. Such a loan, of course, would be subject to prior credit approval of the Commissioner if the additional credit, when added to the principal amount outstanding on other class 1 and class 2 loans to the same borrower, would exceed the aggregate amount of \$5,000.

DEFERRED PAYMENT ON PRIOR LOANS

Prior to the disbursement of the loan proceeds, the insured has the obligation to certify that the borrower is past due more than 15 days in the payment of either principal or interest on an obligation owing to or guaranteed by a department or agency of the Federal Government, the transaction will not be eligible for insurance. Following are examples of "governmental agencies":

1. Federal Housing Administration.
2. Farmers Home Administration.
3. Reconstruction Finance Corporation.
4. Rural Electrification Administration.
5. Veterans' Administration.

COLLECTIONS

An insured lending institution is expected to pursue an aggressive policy in the collection of Title I loans. In carrying out such a policy it is suggested that use be made of form notices, dictated letters, telegrams, telephone calls, and personal contacts. A system of form notices should be established which calls for automatic follow-up, such as, the fifth, tenth, and fifteenth days after default occurs. If these notices do not produce results, the account should receive special handling. The use of the telephone is strongly recommended for inside collection and if results are not obtained the borrower should be personally contacted by an outside collector. Every effort should be made to discover the reason for default and to effect reinstatement of the account. It is of the utmost importance to keep in close contact with the borrower when his note has become delinquent. Constant follow-up is essential to a successful collection program.

In the case of recalcitrant borrowers who have the ability to pay, and the facts of the transaction warrant, the lending institution should consider the advisability of instituting legal action. Ample provision has been made in the Regulations to reimburse the lending institution for the expense which will be incurred in legal proceedings.

In furtherance of a collection program, lending institutions are urged to consider refinancing delinquent loans, within the limits prescribed by the Regulations, over a longer term with smaller monthly payments where borrowers due to illness, unemployment, or other legitimate reasons are unable to meet the schedule of payments called for by their note. If refinancing is not practicable, lending institutions may request an extension of the 6 months allowable claim period for the purpose of carrying the account delinquent for a longer time, in order to work out a satisfactory plan of liquidation.

It is not necessary for a lending institution to report paid in full Class 1 and 2 loans to the Federal Housing Administration.

ELIGIBLE IMPROVEMENTS

The following statement of basic policy may be supplemented by a specific ruling as to any particular project or item about which there may be doubt on the part of the lending institution, upon application to the Federal Housing Administration, Washington 25, D. C. Requests for rulings should be supported, if possible, by descriptive or illustrated literature in the case of a specific individual item as well as plans and specifications where general projects involving various improvements are contemplated.

EXISTING STRUCTURES—CLASS 1 (a) LOANS

The structure to be improved must exist as a completed building that is occupied or used, was formerly occupied or used, or has been made ready for occupancy or use.

No part of a loan may be used to finance the cost of completing an unfinished structure. This does not exclude a loan for the repair of a previously complete structure which has been damaged but not substantially destroyed by deterioration, flood, fire, or other casualty; nor the construction of an attached garage, or other attached building in connection with a completed house or other existing buildings, such as homes, apartment houses, hotels, office buildings, hospitals, orphanages, colleges, churches, and manufacturing and industrial plants.

Eligible expenditures include those for structural alterations, repairs, or additions upon the structure itself, or in connection therewith. The enlargement of the size of the structure, a new stairway, new flooring, new porch, roof, plumbing, wiring, painting, plastering, venetian blinds, awnings, and heating systems, which in themselves are alterations and improvements, are eligible expenditures.

Improvements in connection with the existing structure may also include such changes in the status of the ground on which the building stands as grading and landscaping, private sidewalks, private curbs, fences, and driveways. Likewise the installation of a septic tank or cesspool, the drilling of a well together with necessary pumping equipment and piping, although removed from the structure but in connection with the structure, are eligible.

A loan to convert one type of building into a different type will be eligible provided a substantial part of the original building is left standing. For instance, a loan for the conversion of a single-family dwelling into an apartment would be eligible if the walls and other main structural elements are left standing. A new stairway, new windows, rooms, porch, etc., may be added, and partitions changed.

A loan to demolish a structure or to move a structure off the premises would not be eligible except where such demolition or moving is for the purpose of improving an existing structure remaining on the property.

Loans to finance the cost of insulating an existing structure, putting on a new roof, installing a new bathroom, adding closets, repairing the floors, walls, or ceiling are eligible.

Heating systems, including stokers, oil burners, coal, gas, and electric furnaces, and plumbing and wiring, when a permanent part of the realty, are eligible.

Equipment and machinery such as presses, drills, lathes, and other similar items used in an industrial or commercial establishment are not eligible regardless of the method or permanency of installation.

Refrigerators, washing machines, ironers, stoves, dishwashers, carpeting, draperies, and other household appliances and furnishings are not eligible.

Bearing in mind that loans for eligible repairs, alterations and improvements must be upon existing structures or in connection therewith, the following principles are applicable:

- (a) The repair, improvement, or addition must be physically attached to and a part of the structure or in connection therewith.
- (b) Improvements and additions which are removable or by their character necessarily temporary, are not eligible. Items which are of a nature generally considered as trade fixtures or equipment for commercial or industrial use are not eligible.
- (c) A loan for the improvement of a structure to make such structure adaptable to the installation of ineligible equipment and machinery is insurable but a loan for the purchase of such ineligible equipment and machinery is not insurable. For example, a loan to strengthen the foundation, walls and the floors of a structure to hold safely heavy machinery that may be installed would be eligible but a loan for the purchase of the machinery would not be eligible.
- (d) An ineligible item does not become eligible merely because it is attached to the realty.

CLASS 1 (b) LOANS

It is required that the proceeds of a class 1 (b) loan be used to alter, repair, improve or convert a structure so as to further its use as a dwelling for two or more families. For example, a single family house may be converted into a two-family house; a dwelling for two or more families may be improved by painting or by installing a new heating system or a new plumbing system. It would be eligible to alter a commercial building so as to provide living accommodations for two or more families. However, it would not be permissible to use the proceeds of a class 1 (b) loan to benefit the business that may be conducted in a structure, such as installing a new store front, even though the building is used or will be used as a dwelling for two or more families.

In order that the lending institution may determine (a) the eligibility of the proposed work and (b) the fact that the structure to be improved is used or will be used for two or more families the borrower should clearly indicate the required information in his Credit Application and in the statement of the improvements as required by Regu-

L, section 1 (d). The lending institution may rely upon such information in the absence of information to the contrary.

"as used in the Regulations is defined as one or more persons sleeping, cooking and eating on the same premises as occupants of a living unit.

In any doubt as to whether a proposed project is eligible for financing, all the facts of the case may be submitted to the Commission for an official ruling.

STRUCTURES—CLASS 2 LOANS

Costs of new structures eligible for a class 2 loan which may be on improved or unimproved real property are barns, garages, buildings, wayside stands, gasoline stations, tourist cabins, and structures for itinerant farm laborers, and industrial or commercial

A class 2 loan may not include the cost of trade equipment used in the operation of the business that will occupy the structure. The costs include the cost of heating or lighting systems and similar improvements which are eligible for class 1 improvement loans. For example, a loan in excess of \$3,000 may be used to erect a commercial building including a heating system, but no portion of the proceeds may be used to buy and equip the structure with trade fixtures. The proceeds of a class 2 loan must be used to finance the building of the structure that will be ready for use upon completion. It is not possible to purchase an existing structure nor to apply the proceeds to complete a structure that is partially built.

Only one new structure may be built on a single piece of property. The principal amount of any one loan may not exceed the cost of \$3,000 for any one piece of property. For example, if a borrower wishes to erect a new barn to cost \$1,500 and three separate buildings to cost \$500 each, a loan for the full \$3,000 would be eligible.

The proceeds of a class 2 loan may be used for demolishing existing structures to make room for a new structure. However, the erection of a new structure on an old foundation would be eligible.

PRIOR LIENS

A class 1 or a class 2 loan to supplement another obligation not insured by insurance, the payment of which is secured by a prior lien in connection with the proposed work, is not eligible. In addition, if a borrower were able to obtain a mortgage loan of \$3,000 planned to repair or build a structure to cost \$3,500 when the borrower had an additional loan of \$2,500 would not be insurable. However, if the borrower had \$1,000 cash, which did not represent the proceeds of a loan secured by a prior lien executed in connection with the proposed work, a loan of \$2,500 would be eligible.

SUPPLEMENTAL COSTS

An eligible class 1 or class 2 loan may include the cost of architectural and engineering services. However, a loan may not include the cost of land, nor may such items as cost of title search, credit reports, appraisals, etc., be included if such costs are in addition to the maximum permitted financing charge.

DEALER RELATIONSHIP

The financing of property improvement loans is remarkably free of misrepresentation and abuse, considering the enormous volume of business that is transacted. Nevertheless, there arise from time to time unscrupulous dealers who through a variation of circumstances endeavor to conduct their business by fraudulent or irregular methods. There is no place in the Title I program for such dealers or their sales employees. Their prompt identification and elimination is to the advantage of all lending institutions and the majority of dealers who conduct their operations on a high level, and it also affords a measure of protection to property owners. Therefore, it is incumbent on the lender to select carefully the dealers from whom it purchases notes or with whom it cooperates in making loans directly to borrowers and to maintain a constant review and supervision of the business generated.

The closer the association between the borrower, the dealer and the lender, the less likelihood there is of credit misrepresentation, misapplication of funds, overselling or other abuses. Conversely, the more distant the working relationship becomes, the greater are the possibilities for intentional or unintentional irregularities.

Some irregularities growing out of dealer operations arise from a lack of understanding of the Regulations while others result from carelessness, unscrupulousness, or unlawfulness. These irregularities consist of such abuses as grossly overstating the merits of the product, faulty workmanship, assuring performance of doubtful attainment, stipulating guarantees beyond those of the manufacturer, promising cash bonuses on repeat sales in the neighborhood, encouraging trial purchases, inflating the sale price, and not disclosing to the borrower that in addition to the cost of the improvements, his note will be for an amount that includes the allowable financing charges. Misrepresentation as to durability, performance, permanence, and workmanship, are the insignia of the unscrupulous dealer or salesman.

DEALER APPROVAL

The Federal Housing Administration does not approve dealers for participation in the Title I program. This is a responsibility of the lending institution.

The Regulations require the insured institution to have a file on each dealer containing an application signed and dated by the dealer. It is further required that the file contain a signed and dated approval of the dealer, such approval being supported by information in the file that the dealer is (1) reliable, (2) financially responsible, (3) qualified to perform satisfactorily the work to be financed, and (4) equipped to extend proper service to the customer. The absence of such a file containing the required dealer application and approval with supporting information is a violation of the regulations and loans purchased from such unapproved dealers do not meet the requirements of the insurance contract. Where claim for reimbursement is shown to have resulted from default occasioned by fraud or faulty performance on the part of the dealer, the insured may be called upon to furnish the Commissioner with the file containing its approval of the dealer.

Investigation and approval of dealers should not be considered in cursory manner. The role of the dealer is one of great importance as he or his salesmen, in effect, represent the insured institution when discussing the terms of financing with the home owner and when obtaining the execution of the loan documents. Thus the dealer should not be a stranger to the insured but the latter should have full knowledge of the principals, the salesmen, and their method of operation.

Only a thorough investigation will develop sufficient information to enable the insured institution to make a sound and proper decision. It is contrary to the policy of the Federal Housing Commissioner to permit lending institutions to use insurance coverage provided by the National Housing Act for the purpose of testing the dependability of dealers with whom they have had no previous experience and with respect to whom they do not have adequate and reliable information.

The insured institution must ascertain that:

1. The dealer is reliable.

If the insured institution has no knowledge of the reliability of the dealer, a thorough check should be made to assure that the dealer is honest, trustworthy, and can be relied upon to fulfill the contracts he enters into with his customers. Such information may include the experience of the local FHA office, experience of other lending institutions, Better Business Bureaus, or similar agencies and, should the situation demand, the experience of previous customers.

2. The dealer is financially responsible.

Information in possession of the insured should clearly indicate that the dealer has a reputation for paying his bills promptly and has the financial strength to operate his business properly. It is a sound practice to obtain from the dealer his current balance sheet and profit and loss statement which in turn may be supported by a commercial credit report. Periodically, this financial information should be brought current and the dealer's financial soundness reviewed in the line of current operations.

3. *The dealer is qualified to perform satisfactorily the work to be financed and is equipped to extend proper service to the customer.*

The requirements of the specific case will dictate the information necessary to ascertain that the dealer is experienced in the business he is conducting and has the organization and equipment to perform the work and extend proper service to the customer. In the absence of personal knowledge of the dealer, it is recommended that a representative of the institution call upon the dealer at his place of business and prepare a report clearly showing that he dealer possesses the required qualifications.

It is equally important that the following aspects of each dealer operation be carefully considered:

Salesmen.—Dealers should be cautioned as to hiring itinerant salesmen, those whose identity cannot be verified, and individuals whose Title I activities are subject to precautionary measures. It is recommended that frequent meetings be held with the salesmen and supervisory personnel to make certain that they are properly instructed as to the insured's credit and lending policies, as well as to the spirit and letter of the Title I Regulations. It should be clearly understood by the dealer that he will be held responsible for the acts of his salesmen, and the dealer should be cautioned in the hiring of new salesmen. Occasionally, unethical salesmen traveling from city to city will attach themselves to a reputable dealer and develop sales by misrepresentation and false promises. Dealers should be advised to obtain a personal history statement from each salesman and make a thorough check of his antecedents before hiring.

Improvements to be financed.—The dealer file should contain information showing the type of work done, the kind of materials used, the manner of installation and the price range. This may be supplemented by descriptive literature used by the dealer in the promotion of his business and such other informational material as may be available. Title I loans should not be used to finance products of doubtful merit or those being sold at an inflated sales price.

INSPECTION OF WORK

A direct and constant control should be maintained by adhering strictly to a policy of verifying periodically the transactions originated by each dealer. Such verifications, sometimes called "spot checks" or "commodity checks," are made by the lending institution, by a telephone call or preferably by a personal call. A number of questions may be asked the borrower to determine whether the work stated on the borrower's Credit Application was completed satisfactorily, whether the borrower was promised or given any cash, whether any unreasonable guarantees were given as to the workmanship or the product, whether the borrower was told that his house

would be a "Model" and he would receive a commission on all sales generated in the neighborhood, and whether there was a clear understanding as to the cost of the job and the terms of financing. If a personal call is made, the representative should formulate an opinion as to the workmanship on the job, look for ineligible items, and estimate whether the cost of the improvement was in keeping with the value of the property.

Whenever an institution has an occasion to withdraw approval of a dealer, the file should clearly indicate the reason for the action, the date, and indicate by whom taken.

MAINTENANCE OF RECORD ON EACH APPROVED DEALER

As a basis for determining whether continued dealer approval is warranted the insured institution is required to establish and maintain a separate control record on each dealer indicating at least the volume of loans purchased, claims filed, and borrower complaints received or irregularities discovered.

A suggested control record form that an institution may reproduce with the addition of space for other data deemed necessary appears elsewhere in this statement of policy.

REPORT TO WASHINGTON

Material irregularities or unethical practices perpetrated by anyone participating in the Title I program should be reported to the Commissioner promptly.

DISBURSING PROCEEDS OF A LOAN

TO THE BORROWER

The lending institution may disburse the proceeds of the note to the borrower by cash, by check or money order drawn solely in favor of the borrower(s), or by crediting the borrower's account. In such cases dealer approval, completion certificates, dealer's contract or sales agreements, and borrower authorization certificates are not required for such loans since transactions of this kind are deemed to be "loans made directly to the borrower."

A loan is not considered as having been made "directly to the borrower" if the dealer is permitted to participate in the disbursement in any manner, such as receiving the check or money order (although made payable to the borrower) or accompanying the borrower to the institution for the obvious purpose of receiving payment. In other words, disbursement must be made to the borrower in such a way that he will have complete control of the funds at all times.

TO THE DEALER

In connection with all other loans, the financial institution must have investigated and approved the dealer and have in its possession, properly signed and dated:

- (1) FHA Title I Completion Certificate (FH-2).
- (2) Copy of Dealer's Contract or Sales Agreement, and, if the financial institution is the payee of the note, a
- (3) Borrower's Authorization Certificate.

The FHA Title I Completion Certificate provides for two types of transactions (a) the furnishing and installation of articles and materials and completion of all work, and (b) the delivery of articles and materials only. In either case the services performed by the dealer must constitute the entire consideration for which the note was executed and delivered by the maker. Under this provision, articles and materials or services not to be delivered or performed by the dealer may not be included in the transaction. The Completion Certificate may be reproduced provided the minimum size is 8 x 7 inches and there is no deviation as to content or format; except, that if only one type of transaction is to be handled the reproduction of the Completion Certificate omitting the certification that is not applicable will be permitted.

An acceptable form of Borrower's Authorization Certificate is reproduced in this booklet. It is permissible to incorporate the contents of the Borrower's Authorization Certificate in the note, Credit Application, or Completion Certificate. Lending institutions are urged to consult their own attorneys as to what effect, if any, such incorporation will have on the validity and enforceability of the note.

The purpose of the foregoing disbursement procedure is to protect the borrower, the lending institution, and the Government by making certain that all improvements contracted for are actually completed to the borrower's satisfaction and that other persons do not obtain the loan proceeds without the work being completed.

DEALER'S CONTRACT OR SALES AGREEMENT

In dealer disbursement transactions lending institutions are required to obtain a copy of the Contract or Sales Agreement, signed by the borrower and the dealer, describing the type and extent of improvements to be made and the material to be used. The Contract or Sales Agreement must be of a type regularly used by the dealer in his business. Signatures on the lender's copy may be a carbon imprint of the signatures on the original Contract or Sales Agreement.

The Federal Housing Administration does not approve or furnish dealer Contract or Sales Agreement forms. If a dealer has any question regarding his Contract or Sales Agreement he should obtain the advice of counsel in the jurisdiction where operations are contemplated.

The following chart is self-explanatory and may be used as a convenient reference in determining when the three instruments discussed in the foregoing are required:

When note is payable to—	And proceeds are paid to—	Required		
		Completion certificate (FH-2)	Dealer's contract	Borrower's authorization certificate
Lending institution	Borrower	No	No	No
Do.	One other than borrower	Yes	Yes	Yes
Do.	Borrower and another jointly	Yes	Yes	No
Payee other than lending institution	Payee on endorsement	Yes	Yes	No

ADVANCE NOTICE TO THE BORROWER

At least six calendar days prior to making disbursement to a dealer the lending institution is required to give the borrower written notice of the approval of his credit application. If, for example, the notice is mailed on the first day of the month, disbursement shall not be made before the seventh day of the month. It is not required that the borrower acknowledge receipt of the notice. However, the insured must have a record of having mailed or delivered such notice. An acceptable record of delivery would be a dated carbon copy of the notice or a dated entry in the borrower's loan file.

Supplies of the advance notice are not furnished by FHA as it is believed that institutions should issue the notice on their own stationery. As the Regulations require such notice on a form approved by the Commissioner, this shall be considered as official approval of any notice that contains in its text the following minimum data:

[Letterhead of institution]

**ADVANCE NOTICE TO APPLICANT FOR FHA TITLE I
LOAN**

----- Date -----
(Borrower's name)

(Address)

We have approved your FHA application for credit in the net amount of \$ -----, for ----- months under Title I of the National Housing Act as presented to us by -----
(Dealer)

Please notify us immediately if you have any questions regarding the transaction.

(Name of institution)

Lenders are encouraged to add to this notice any additional material that may be helpful to the homeowner in fully understanding the transaction. Notices in use by some lenders indicate the gross amount of the loan, the amount of the monthly payment and the finance charge. Frequently, a warning is expressed against bonus selling and the borrower is cautioned that the completion certificate should not be signed until he is satisfied as to the completion of the job.

VERIFICATION OF SIGNATURES

Care should be exercised to check the signatures on the borrower's portion of the Completion Certificate and Borrower's Authorization Certificate with the signatures on the Credit Application and Note as a precaution against forgery.

PRECAUTIONARY MEASURES

Occasionally there are dealers or salesmen employed by them, who tend to abuse the privileges accorded under the program. When such irregularities or disregard for the Statute and Regulations are brought to the attention of the Federal Housing Administration, lending institutions will be notified. When such notification is received from the Commissioner, or his authorized agent, the provisions of Regulation VIII, section 2, will apply.

Lending institutions are encouraged to consult the local Federal Housing Administration Field Office if a dealer problem arises where they feel assistance is needed.

CLAIM FOR LOSS

Claim for reimbursement of loss on an eligible note may be made to the Commissioner at any time after the note is in default and written demand has been made upon the borrower for payment in full of the obligation. Claim for loss must be filed within 31 days when any full installment has become 6 months in default, unless an extension of the allowable claim period has been granted by the Commissioner.

An insured may proceed against any security taken and file claim for deficiency, if any, provided the approval of the Commissioner is obtained.

COMPUTATION OF THE ALLOWABLE CLAIM PERIOD

If the equivalent of a full installment is received prior to the expiration of the 6-month period, the amount of such payment should be credited to the earliest unpaid installment and the 6-month period shall be calculated from the date of the first following installment remaining unpaid.

For example: If the note calls for monthly payments of \$30, due the first of each month, and the borrower defaults on his January, February, March, April, May, June, and July installments, claim must be filed by the institution on or before August 1.

If the borrower had, however, defaulted on his January and February installments but in March made a \$15 payment and in April a \$15 payment, the total of these two payments would be credited to the January installment. In so doing the January default is cured and the February 1 installment then becomes the first one in default and the 6-month period is calculated therefrom. If no additional payments are made, claim, in this case, must be filed by the institution on or before September 1.

COMPUTATION OF CLAIM FOR LOSS

The claim for loss report should be executed in complete detail when submitted to the Administration. If all necessary information is supplied initially, delay in auditing claims for loss will be avoided.

The claim file should contain information or a statement giving the reason for default. It should include all credit information, col-

lection correspondence with the borrower and memoranda covering telephone calls and personal contacts. This information is desired in order to assist the Federal Housing Administration to take the proper action at once in salvaging the account and protecting the interest of the Government.

The insured should file timely claim in bankruptcy, creditor, and insolvency proceedings and in proceedings in connection with decedent borrowers' estates, if notified thereof prior to filing claim with the Commissioner, and also should give the Commissioner notice of any suit instituted prior to such claim being filed in which the insured has been made a party by reason of being the holder of the insured obligation.

Example

In the following example it is shown how much a lending institution would be entitled to as a claim under its Contract of Insurance:

Suppose on a \$1,000, 3-year note, dated August 1, and payable in monthly installments of \$27.78 the maximum discount of \$130.28 was taken. Payments were received as follows: The first five payments were made on the dates due; that is, September 1, October 1, November 1, December 1, and January 1; the payment due February 1 was received 60 days late; that is, April 1. No additional payments were received and the lending institution matured the note, demanded payment of the full unpaid balance, brought suit, and obtained judgment. On July 1, \$50 was collected. Nothing more was received, and application for reimbursement for loss was filed on July 25.

In calculating claims, the date of default from which the institution is entitled to 4 percent interest is, in this instance, March 1; that is, the earliest date on which an installment was due and for which full payment was not received prior to the maturing of the note. Therefore, the above claim would include the following items:

1. Charge for full term of loan, \$130.28.

This charge is to be prorated to the date of default.

The proration is figured on the basis of the number of full installments received prior to the date demand was made for the full unpaid balance.

Charge prorated to date of default.....	\$45. 19
Proceeds of loan (amount received by borrower) (\$1,000-\$130.28) ..	869. 72
Total to date of default.....	914. 91
Less amount received in regular installments.....	-166.68
Unpaid principal at time of default.....	748. 23
Less amount received other than in regular installments.....	50. 00
Net unpaid principal.....	698. 23
2. Interest earned at 4 percent on \$748.23 from March 1 to July 1.....	10. 00
Interest earned at 4 percent on \$698.23 from July 1 to July 25 (date of application for reimbursement).....	1. 84
3. Uncollected court costs and disbursements.....	6. 00
4. Attorney's fees, 15 percent of \$50 (amount collected after default) ..	7. 50
5. Attorney's fees for securing judgment.....	25. 00
6. Additional attorney's fees (action contested and judgment obtained).....	91. 67
Total amount to be paid.....	840. 24

¹ \$50 + 5% of \$838.32.

FH-2
Revised October 1953

Form Approved
Budget Bureau No. 63-R221

FHA TITLE I COMPLETION CERTIFICATE

(Work done or materials delivered)

To: _____ of _____
(Financial Institution) (Address)

In accordance with my (our) credit application dated _____, for a loan pursuant to the provisions of Title I of the National Housing Act:

CHECK HERE IF LOAN IS TO PAY FOR COST OF MATERIALS AND INSTALLATION.

- ☐ I (we) hereby certify that all articles and materials have been furnished and installed and the work satisfactorily completed on premises indicated in my (our) credit application.

CHECK HERE IF LOAN COVERS ONLY THE PURCHASE OF MATERIALS.

- ☐ I (we) hereby acknowledge receipt in satisfactory condition of the materials described in my (our) credit application.

I (we) certify that I (we) have not been given or promised a cash payment or rebate nor has it been represented to me (us) that I (we) will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction. I (we) understand that the selection of the dealer and the acceptance of the materials used and the work performed is my (our) responsibility and that neither the FHA nor the financial institution guarantees the material or workmanship or inspects the work performed.

NOTICE TO BORROWER

Do not sign this certificate until you are satisfied that the dealer has carried out his obligations to you and that the work or the materials have been satisfactorily completed or delivered.

Date _____

Borrower Signature _____

Borrower Signature _____

(READ BEFORE SIGNING)

For the purpose of inducing the payment of proceeds of this loan and the insurance thereof by the FHA the undersigned certifies and warrants that:

(1) The above work or materials constitute the entire consideration for which this loan is made, (2) a copy of the contract or sales agreement has been delivered to the borrower and the above financial institution, (3) this contract contains the whole agreement with the borrower, (4) the borrower has not been given or promised a cash payment or rebate nor has it been represented to the borrower that he will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction, (5) the work has been satisfactorily completed or materials delivered, (6) the above certificate was signed by the borrower after such completion or delivery, (7) the signatures hereon and on the note are genuine, (8) all bills for labor or materials have been or will be paid.

If any of the above representations prove incorrect, the undersigned agrees to promptly repurchase the note from the financial institution or from the FHA as the case may be.

DEALER SIGN HERE _____

(Name of dealer)

Date _____ By _____

(Signature)

WARNING: Any person who knowingly makes a false statement or a misrepresentation in this certificate shall be subject to a fine of not more than \$5,000 or to imprisonment for not more than 2 years, or both, under provisions of the United States Criminal Code.

SUGGESTED FORM OF BORROWER'S AUTHORIZATION CERTIFICATE

BORROWER'S AUTHORIZATION CERTIFICATE

-----, 19-----

I (We) hereby authorize and direct the ----- to pay the proceeds of my (our) note
 (Financial Institution)

dated ----- for \$ ----- to -----

(Signature) -----

The FHA does not furnish this form. It may be reproduced by any process.

FHA TITLE I DEALER APPLICATIONTo
(Insured institution) (Date)

The following information is furnished for the purpose of inducing you approve my (our) application as a dealer, pursuant to the provisions of Regulation VIII, Section 1 (a) issued by the Federal Housing Commissioner under authority contained in Title I of the National Housing Act.

Business name Phone

Address For past
(Street) (City) (Zone) (State)Previous address For
(Street) (City) (State)Type of business Date established
(General contracting, lumber yard, heating, etc.)Ownership: ☐ Sole owner ☐ Partnership ☐ CorporationPrincipals:
(Name) (Title) (Home address).....
(Name) (Title) (Home address).....
(Name) (Title) (Home address)Trade references (name suppliers of major products financed under Title I FH
Name Address

Bank of deposit

Have discounted paper with:

..... From to
(Name) (Address) (year) (year)..... From to
(Name) (Address) (year) (year)

If paper to be financed represents the sale of a specialty product, indicate its name and manufacturer

(Attach descriptive literature and price list)

Sales area Number of branches

Address of branches

Describe any guaranty given buyers

Financial statement as of is attached.
(Date)

I (we) understand that I (we) are fully responsible for the Title I activity of sales personnel, that ethical and proper selling practices will be followed, and that immediate attention will be given to all complaints involving materials, workmanship or sales representations.

I (we) certify that the statements are true. I (we) understand this application shall remain the property of the financial institution to which it is submitted, and, if requested, a copy may be furnished to the Federal Housing Administration.

Firm

Name
(Title)

WARNING: Any person who knowingly makes a false statement or a misrepresentation in this certificate shall be subject to a fine of not more than \$5,000 to imprisonment for not more than 2 years, or both, under provisions of United States Criminal Code.

1843

3 SPACE FOR USE OF DEALER IN SUPPLYING ADDITIONAL INFORMATION

[illegible]

dealer given copy of dealer guide.
 rm and all principals checked against precautionary measures list.
 eferences checked.
 redit report dated _____ attached.
 revious lenders checked.
 ace of business inspected by _____

marks

a dealer whose application appears on the reverse hereof has approved after such investigation as we consider necessary to list that the dealer is reliable, financially responsible and qualified to perform satisfactorily the work to be financed and to extend proper service to the customer.

or approved _____ 195 _____

TITLE I
DEALER RECORD FORM

Dealer-----		Address-----		Month-----									
Name and address of loan applicant	Received		Proceeds disbursed		Rejected		Jobs "spot-checked"		Service complaints		Claims filed		
	Date	Amount	Date	Amount	Date	Reason	Date	Results	Date	Remarks	Date	Balance	Reason
1-----													
2-----													
3-----													
4-----													
5-----													
6-----													
7-----													
8-----													
9-----													
10-----													
11-----													
12-----													

FHA does not furnish this form. It may be reproduced with such modifications necessary to meet any special needs of the financial institution.

PART I¹**REGULATIONS****OF THE FEDERAL HOUSING COMMISSIONER
GOVERNING PROPERTY IMPROVEMENT LOANS UNDER
TITLE I OF THE NATIONAL HOUSING ACT**

REGULATION I**CITATION**

These regulations may be cited as the "Regulations of the Federal Housing Commissioner Governing Property Improvement Loans effective July 1, 1947."

REGULATION II**DEFINITIONS**

As used in these Regulations the term—

1. "*Act*" means the National Housing Act, as amended.
2. "*Administration*" means the Federal Housing Administration.
3. "*Commissioner*" means the Federal Housing Commissioner or his duly authorized representative.
4. "*Contract of Insurance*" includes all of the provisions of these Regulations and of the applicable provisions of the Act.
5. "*Insured*" means a financial institution holding a Contract of Insurance under Title I of the Act.
6. "*Loan*" means an advance of funds or credit or the purchase of an obligation evidenced by a note.
7. "*Note*" includes a note, bond, mortgage, or other evidence of indebtedness.
8. "*Payment*" includes a deposit to an account or fund which represents the full or partial repayment of a loan.
9. "*Borrower*" means one who applies for and receives a loan in reliance upon the provisions of the Act and whose interest in the property to be improved is (1) a fee title, or (2) a life estate, or (3) an equitable interest under an instrument of trust or contract, or (4) a lease having a fixed term, expiring not less than six calendar months after the maturity of the loan.

¹ Part II governs Class 3 new home loans. Authority to insure such loans expired April 20, 1950.

10. "*Class 1 (a) Loan*" means a loan, other than a loan defined in Section 11 of this Regulation as a "*class 1 (b) loan*," which is for the purpose of financing the repair, alteration, or improvement of an existing structure or of the real property in connection therewith, exclusive of the building of new structures. The term "*existing structure*" means a completed building that has or had a distinctive functional use.
11. "*Class 1 (b) Loan*" means a loan which is made for the purpose of financing the alteration, repair, improvement, or conversion of an existing structure used or to be used as an apartment house or a dwelling for two or more families.
12. "*Class 2 (a) Loan*" means a loan which is for the purpose of financing the construction of a new structure which is to be used exclusively for other than residential or agricultural purposes.
13. "*Class 2 (b) Loan*" means a loan which is for the purpose of financing the construction of a new structure for use in whole or in part for agricultural purposes, exclusive of residential purposes.
14. "*Class 1 Loan*" includes both "*class 1 (a)*" and "*class 1 (b)*" loans as defined in sections 10 and 11 of this Regulation.
15. "*Class 2 Loan*" includes both "*class 2 (a)*" and "*class 2 (b)*" loans as defined in sections 12 and 13 of this Regulation.

REGULATION III

ELIGIBLE NOTES

1. *Validity*.—The note shall bear the genuine signature of the borrower as maker, shall be valid and enforceable against the borrower or borrowers as defined in Regulation II, section 9, and shall be complete and regular on its face. The signatures of all parties to the note must be genuine. If the note is executed for and on behalf of a corporation or in a representative capacity, the note must create a binding obligation of the principal.
2. *Acceleration clause*.—The note shall contain a provision for acceleration of maturity, either automatic or at the option of the holder, in the event of default in the payment of any installment upon the due date thereof.
3. *Payments*.—The note shall be payable in equal monthly, semi-monthly, or weekly installments. The first installment or the final installment may be more or less than the other installments provided that it is not less than one-half or more than one and one-half times the amount of a regular installment.¹ A note may

¹ As amended October 25, 1953.

not provide for a first payment less than 6 days nor more than 2 calendar months from the date of the note. However, if 51 per cent or more of the income of the borrower is derived directly from the sale of agricultural crops, commodities, or livestock produced by him, a note may be made payable in installments corresponding to income periods shown on the Credit Application. In such cases, the first payment must be made within 12 months of the date of the note and at least one payment shall be made in each 12 months thereafter, provided that no two payments shall be more than 12 months apart, and the proportion of total principal to be paid in later years shall not exceed the proportion of total principal payable in earlier years. In lieu of an installment note payable in equal periodic installments a loan may be evidenced by a series of notes provided each is of an equal amount as provided in this Regulation and that each note indicates on its face that it is one of a series signed by the same borrower.

4. *Maturity.*—(a) Minimum—The note shall not have a final maturity of less than 6 calendar months from the date of the note. (b) Maximum—The maximum permissible maturity of a note evidencing:

- (1) A class 1 (a) or a class 2 (a) loan is 3 years and 32 days from the date of the note.
- (2) A class 1 (b) loan is 7 years and 32 days from the date of the note.
- (3) A class 2 (b) loan is 7 years and 32 days from the date of the note, except that if a class 2 (b) loan is secured by a first mortgage, first deed of trust, or other security instrument constituting a first lien upon the improved property, the loan may have a final maturity not in excess of 15 years and 32 days from the date of the note.
- (4) A combination of any of the above classes of loans shall be no greater than the maximum maturity governing that component part of the loan having the shortest maturity if made alone.

5. *Late charges.*—The note may provide for a late charge, not to exceed 5 cents for each \$1 of each installment more than 15 days in arrears. No late charge on a past due installment may be accrued in excess of \$5. In lieu of late charges, notes may provide for interest on past due installments at a rate not in excess of the contract rate in the jurisdiction in which the note is drawn. The borrower must be billed for the penalties collected as such, and evidence of such billing must be in the file if claim is made under the Contract of Insurance.

REGULATION IV

MAXIMUM AMOUNT OF LOANS

1. *Class 1 (a) loan.*—A class 1 (a) loan shall not involve a principal amount, exclusive of financing charges to the borrower, in excess of \$2,500.
2. *Class 1 (b) loan.*—A class 1 (b) loan shall not involve a principal amount, exclusive of financing charges to the borrower, in excess of \$10,000.
3. *Class 2 loan.*—A class 2 loan shall not involve a principal amount, exclusive of financing charges to the borrower, in excess of \$3,000.

REGULATION V

FINANCING CHARGES

1. *Maximum charge.*—The maximum permissible financing charges, exclusive of fees and charges as provided by section 2 of this Regulation, which may be paid by the borrower for interest, discount, and fees of all kinds in connection with the transaction, shall be computed as follows:
 - (a) Class 1 loans having a principal amount not in excess of \$2,500 shall not have a financing charge in excess of an amount equivalent to \$5 discount per \$100 original face amount of a 1-year note, to be paid in equal monthly installments calculated from the date of the note.
 - (b) Class 1 loans having a principal amount in excess of \$2,500 shall not have a financing charge in excess of an amount equivalent to \$4 discount per \$100 original face amount of a one year note, to be paid in equal monthly installments calculated from the date of the note.
 - (c) Class 2 loans shall not have a financing charge in excess of an amount equivalent to \$5 discount per \$100 original face amount of a 1-year note, to be paid in equal monthly installments calculated from the date of the note, except that class 2 (b) loans having a maturity in excess of 7 years and 32 days shall not have a financing charge in excess of an amount equivalent to \$3.50 discount per \$100 original face amount of a 1-year note, to be paid in equal monthly installments calculated from the date of the note.

Such charges correctly based on tables of calculations issued by the Federal Housing Commissioner are deemed to comply with this Regulation.

An increase in the ratio of the charge to the average amount outstanding on the debt over the maximum provided in this Regulation, which increase results from the first payment falling due less than 30 days after the date of the note as provided in Regulation III, section 3 shall not be deemed to be in conflict with this Regulation.

2. *Permissible additional charges.*—If the insured takes security in the nature of a real-estate mortgage, deed of trust, conditional sales contract, chattel mortgage, mechanic's lien, or other security device for the purpose of securing the payment of eligible loans, the insured may collect from the borrower, in addition to the maximum permissible financing charge as provided in section 1 of this Regulation, the following expenses actually incurred by the insured in connection with the transaction: Recording or filing fees, documentary stamp taxes, title examination charges and hazard insurance premiums, provided that such costs or expenses are not paid from the proceeds of the loan or included in the face amount of the note. Such costs or expenses shall not be included by the insured as a portion of a claim under the Contract of Insurance and if such costs or expenses are assessed against the borrower, proper evidence thereof should be in the file.
3. *Partial disbursement of proceeds.*—If the insured in purchasing a note takes the maximum charge permitted by this Regulation, but employs a "hold-back" and does not advance the entire proceeds of the note to the seller, it shall calculate its financing charge on the amount advanced and credit to the account of the seller the difference between the financing charge calculated on the face amount of the note and the financing charge calculated on the amount advanced.
4. *Prepayment rebate.*—If a note is paid in full prior to maturity, the insured shall make a rebate at a rate not less than 6 percent per annum of the amounts so paid in advance of their due dates, if the maximum permissible financing charge in connection with the transaction is in an amount equivalent to \$5 discount as provided in section 1 of this Regulation. If a lesser charge has been taken, the rebate shall be at not less than a proportional rate.

REGULATION VI

CREDITS AND COLLECTIONS

1. *Credit Application.*—Prior to making a loan the insured shall obtain a dated Credit Application executed by the borrower on a form approved by the Commissioner. A separate Credit Application is required for each loan made or note purchased.

2. *Credit investigation.*—The Credit Application, supplemented by such other information as the insured deems necessary, must, in the judgment of the insured, clearly show the borrower to be solvent, with reasonable ability to pay the obligation and in other respects a reasonable credit risk. If, after the loan is made, an insured who acted in good faith discovers any material misstatements or misuse of the proceeds of the loan by the borrower, dealer, or others, the eligibility of the note for insurance will not be affected. However, the insured shall promptly report such discovery to the Commissioner.
3. *Outstanding FHA and direct Federal obligations.*—The proceeds of a loan shall not be disbursed if the insured has knowledge that the borrower is past due more than 15 days as to either principal or interest with respect to an obligation owing to, or insured by, any department or agency of the Federal Government, provided that nothing contained herein shall prevent the making of a loan otherwise eligible, even though the borrower is in default under such an obligation by reason of his military service and the approval of the Commissioner is obtained.
4. *Past due Title I notes at time of purchase.*—A note shall not be purchased when any installment thereon is past due more than 15 days at the date of purchase except purchases of notes under the provisions of Regulation XII.
5. *Prior approval by Commissioner.*—Any loan which increases the principal amount outstanding as to all class 1 or class 2 loans to any individual borrower to an amount in excess of \$5,000, exclusive of financing charges, will be accepted for insurance only upon prior approval of the Commissioner.
6. *Security.*—The taking of security to secure the payment of a loan is left to the discretion of the insured unless specifically required by the Commissioner in accordance with the provisions of section 5 of this Regulation or of Regulation III, section 4 (3). An insured may permit the substitution or subordination of security provided it can be shown when claim is made that at the time of such action the original security value was not impaired or reduced as a result of such action. Upon presentation of the facts the prior approval of the Commissioner may be obtained by the insured to any proposed substitution or subordination of security.
7. *Collections.*—The insured is required to service loans in accordance with acceptable practices of prudent lending institutions. In the event of default, the insured should have adequate facilities for contacting the borrower and otherwise exercise diligence

in collecting the amount due. The insured is responsible to the Commissioner for proper collection efforts even though actual collection may be performed by an agent.

REGULATION VII

ELIGIBLE EXPENDITURES

1. *Property location*.—The property to be improved shall be located within the United States, its Territories, or possessions.
2. *Use of proceeds*.—The proceeds of a loan shall be used only to finance alterations, repairs, and improvements upon real property or in connection with existing structures, commenced in reliance upon the credit facilities afforded by Title I of the act.
3. *Reliance on Credit Application*.—An insured acting in good faith may, in the absence of information to the contrary, rely upon all statements of fact made by the borrower, which are called for by the borrower's Credit Application, in determining the eligibility of the improvements to the property.
4. *Technical services and direct costs*.—The proceeds of a loan may be used to pay the cost of architectural and engineering services, and fees paid for obtaining building permits that are directly connected with the eligible alterations, repairs, or improvements financed in accordance with these Regulations.
5. *Supplementing an uninsured obligation*.—The proceeds of a loan shall not be used to supplement another obligation of the borrower not reported for insurance, the payment of which is to be secured by a prior lien created in connection with the proposed alteration, repairs, or improvements.

REGULATION VIII¹

DISBURSEMENT OF LOAN PROCEEDS

1. *Disbursement*.—Before disbursing the proceeds of a loan, the insured shall:
 - (a) *Dealer approval*.—Have approved the dealer after such investigation as the insured considers necessary to establish to its satisfaction that the dealer is reliable, financially

¹ As amended, effective December 1, 1953.

responsible and qualified to perform satisfactorily the work to be financed and to extend proper service to the customer. This approval shall be evidenced by an application signed and dated by the dealer and signed and dated by the insured on forms approved by the Commissioner. The dealer application, the approval by the insured, together with supporting information and a record of the insured's experience with the loans originated by such dealer shall be in the insured's file. New dealer applications and dealer approvals need not be executed in connection with dealers who have been approved and to whom the insured has disbursed loans during the 12-month period prior to December 1, 1953. For the purpose of this Regulation the term "dealer" means the one who executed the dealer's completion certificate.

- (b) *Completion certificates.*—Obtain a completion certificate signed by the borrower and a completion certificate signed by the dealer on forms approved by the Commissioner. An insured shall not disburse the proceeds of a loan, if, as an inducement for the consummation of the transaction, the borrower has been given or promised a cash payment or rebate or it has been represented to the borrower that he will receive a cash bonus or commissions on future sales. In the absence of information to the contrary, the insured may rely upon the dealer's statement in his completion certificate as to such bonus selling. If there are two or more eligible borrowers involved in a transaction, only one signature is required on the borrower's certificate.
- (c) *Authorization to pay loan proceeds.*—Obtain written authorization from the borrower, if the insured is the payee of the note and the proceeds are to be disbursed to one other than the borrowers.
- (d) *Description of improvements.*—Obtain a copy of the contract or sales agreement, signed by the borrower and the dealer, describing the type and extent of improvements to be made and the material to be used. Such contract or sales agreement shall be of a type regularly used by the dealer in his business. The signature appearing on the copy of the contract or sales agreement may be a carbon imprint of the signatures appearing on the original.
- (e) *Advance notice to applicant.*—Mail to the borrower or personally deliver to the borrower written notice of ap-

proval of the application for credit on a form approved by the Commissioner. Such notice shall be directed to the borrower prior to disbursement of the loan and in no event less than six calendar days prior to such disbursement. A record of such notice showing the date of mailing or delivery to the borrower shall be in the loan file.

2. *Precautionary measures.*—If the insured has not approved the dealer, as provided in section 1 (a) of this Regulation or has reason to withdraw such approval, the proceeds of a loan shall not be disbursed until:

- (a) The insured has verified all statements contained on the Borrower's Credit Application.
- (b) The borrower has signed the Borrower's Completion Certificate in the presence of the insured.
- (c) The insured has inspected the work performed in every instance when the amount involved is \$500 or more, and in at least one out of every three transactions when the amounts involved are less than \$500.
- (d) The insured has signed a statement to the effect that the above requirements were complied with prior to releasing the proceeds of any such loans. Such statement must accompany each Loan Report.

3. *Exceptions.*—The provisions of Sections 1 and 2 of this Regulation shall not apply to loans made directly to the borrower or borrowers where the proceeds are delivered directly to such borrower or borrowers without the intervention or participation of the dealer or other intermediary in any manner in such disbursement.

REGULATION IX

REFINANCING

1. *General requirements.*—New obligations to liquidate loans previously reported for insurance pursuant to Title I of the act after July 1, 1947, which may or may not include an additional amount advanced will be covered by insurance, if they meet the requirements of all applicable regulations and the special provisions of this Regulation: *Provided*, That after March 1, 1950, no additional amount shall be advanced with respect to any such new obligations which are for the purpose of liquidating loans made

prior to March 1, 1950: *Provided further*, That obligations which are for the purpose of liquidating loans made prior to March 1, 1950, shall not be consolidated with obligations representing loans made after March 1, 1950.

2. *Maximum maturity.*

- (a) A class 1 (a) loan or a class 2 (a) loan may be refinanced for an additional period not in excess of 3 years and 32 days from the date of the refinancing, but not to exceed 5 years from the date of the original note.
- (b) A class 1 (b) loan may be refinanced for an additional period not in excess of 7 years and 32 days from the date of the refinancing, but not to exceed 10 years from the date of the original note.
- (c) A class 2 (b) loan may be refinanced for an additional period not in excess of 7 years and 32 days from the date of the refinancing, but not to exceed 10 years from the date of the original note, except that if a class 2 (b) loan is secured by a first mortgage, first deed of trust, or other security instrument, constituting a first lien upon the improved property, the new note may have a final maturity not in excess of 15 years and 32 days from the date of the refinancing, but not to exceed 25 years from the date of the original note.
- (d) When a class 1 loan or a class 2 loan is made or refinanced and consolidated with another class 1 loan or class 2 loan, the new note evidencing the consolidated obligation shall not be for a longer term than that which the component loan having the shortest permissible maturity could have if made or refinanced alone.

3. *Rebate.*—The full unearned charge on the original note shall be refunded to the borrower. If no additional advance is made a handling charge not in excess of \$2 may be assessed the borrower.

4. *Special cases.*—The Commissioner may upon presentation of the facts approve the refinancing or refinancing and consolidation of any loan or loans upon such terms and conditions as he may determine within the limits provided by the Act.

5. *Deferred payments.*—An agreement to defer payments on a note previously reported for insurance under these Regulations without rewriting the note is not considered refinancing. Such agreement will not affect the insurance coverage on the loan provided that:

- (a) Such agreement is evidenced in writing;
- (b) Payments shall not be deferred for more than 5 months from the ~~late~~ date of the last fully paid installment;
- (c) ~~s~~ l not extend the final maturity of the rity date of the obligation as

- (d) The insured may assess the borrower for the cost of such deferment if such charge is not in excess of an equivalent amount of late charges as provided in Regulation III, section 5.

REGULATION X

REPORT OF LOANS

Loans shall be reported on the prescribed form to the Federal Housing Administration at Washington, D. C., within 31 days from the date of the note or date upon which it was purchased. Any loan refinanced as provided in Regulation IX shall likewise be reported on the prescribed form within 31 days from date of refinancing. In any case, the Commissioner may, in his discretion, accept a late report. During the period Regulation W, issued by the Board of Governors of the Federal Reserve System, effective September 18, 1950, is in effect, the execution and submission of a loan report pursuant to this regulation shall be deemed a representation by the insured that it has complied with all requirements of said Regulation W applicable to the transaction reported for insurance. During the period Regulation X, issued by the Board of Governors of the Federal Reserve System, is in effect, the execution and submission of a report of a class 1 (b) loan pursuant to this Regulation shall be deemed a representation by the insured that it has complied with all requirements of said Regulation X on the same basis and to the same extent as if the loan was not to be reported for insurance.

REGULATION XI

CLAIMS

1. *Claim application.*—Claim for reimbursement for loss on an eligible loan shall be made on a form provided by the Commissioner, and executed by a duly qualified officer of the insured. The claim shall be accompanied by the insured's complete credit and collection file pertaining to the transaction.
2. *Claim after default*¹.—Claim may be made after default provided demand has been made upon the debtor for the full unpaid balance of the note.
3. *Maximum claim period*¹.—For the purpose of determining when a claim must be filed under the provisions of this section, any payments received on an account, including payments on a judgment predicated thereon, shall be applied to the earliest unpaid installment, and in the case of:

(a) *Yearly installment notes*, whenever an installment is 12

¹ As amended October 28, 1953.

months in default, claim must be made within 31 days thereafter;

- (b) *All other installment notes*, whenever an installment is 6 months in default, claim shall be made within 31 days thereafter.
- (c) *Military service cases*, if at any time during default a person primarily or secondarily liable for the repayment of any loan is a "person in military service," as such term is defined in the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, the period during which he is in military service shall be excluded in computing the time within which claim must be made for reimbursement under the provisions of this Regulation.

4. *Extension of maximum claim period*.—Upon presentation to the Commissioner of the facts of a particular case within the allowable claim period prescribed in this Regulation, he may, in his discretion, extend the time within which claim must be made, provided that in computing the claim no interest will be allowed for the period of such extension.

5. *Claim amount*.—An insured will be reimbursed for its loss on loans made in accordance with these Regulations up to the amount of its reserve as established by Regulation XII as follows:

- (a) Net unpaid amount of the loan actually made or the actual purchase price of the note, whichever is the lesser;
- (b) Uncollected earned interest to date of default and interest at the rate of 4 percent per annum from the date of default to the date of the application for reimbursement of loss sustained, but in no event shall the total interest allowed exceed the maximum permissible financing charge on the principal amount outstanding to the date of application for reimbursement.
- (c) Uncollected court cost, including fees paid for issuing, serving, and filing summons;
- (d) Attorney's fees actually paid not exceeding:
 - (1) Fifteen percent of the amount collected by the attorney on the defaulted note provided the insured does not waive its claim against the borrower for such fees;
 - (2) Twenty-five dollars or 15 percent of the balance due on the note, whichever is the lesser, if a judgment is secured by suit, and
 - (3) Fifty dollars plus 5 percent of the balance due on the note as an additional fee where the action is contested and judgment is obtained.¹

6. *Assignment of documents*.—The note and any security held or judgment taken must be assigned in its entirety and if any claim

¹ As amended, effective as to claims certified for payment after November 30, 1953.

has been filed in bankruptcy, insolvency, or probate proceedings, such claim shall likewise be assigned to the United States of America.

7. *Form of assignment.*—The following form of assignment properly dated shall be used in assigning a note, judgment, real-estate mortgage, deed of trust, conditional sales contract, chattel mortgage, mechanic's lien, or any other security device in event of claim:

"All right, title, and interest of the undersigned is hereby assigned (without warranty, except that the note qualifies for insurance) to the United States of America.

(Financial institution)

By -----

Date ----- Title -----"

Provided that if this form is not valid or generally acceptable in the jurisdiction involved, a form which is valid and generally acceptable shall be used.

8. *Election of action.*—Where a real-estate mortgage, deed of trust, conditional sales contract, chattel mortgage, mechanic's lien, or any other security device has been used to secure the payment of a loan made under the provisions of Title I of the Act, the insured may not, except with the approval of the Commissioner, both proceed against such security and also make claim under its Contract of Insurance, but shall elect which method it desires to pursue.

REGULATION XII¹

INSURANCE RESERVE

1. *Legal limit.*—Subject to the limitation on the Commissioner's authority to insure as stipulated in section 2 of Title I of the Act, the Commissioner, pursuant to the provisions of Regulation XI, will reimburse any insured for losses sustained by it in accordance with the general insurance reserves provisions of section 2 of this Regulation.
2. *General insurance reserves.*—There shall be established for each insured two separate insurance reserves, one to be known as the "1947 reserve" and the other to be known as the "1950 reserve". Each reserve shall be available for the payment of losses sustained in connection with loans made during the period in which the reserve is created.

¹ As amended December 18, 1953.

3. *1947 reserve.*—The 1947 reserve shall equal 10 percent of the aggregate amount advanced on all eligible loans originated by an insured pursuant to the provisions of both part I and part II of these Regulations on and after July 1, 1947, and prior to March 1, 1950, less the amount of all claims approved for payment by the Commissioner in connection with such loans.
4. *1950 reserve.*—The 1950 reserve shall equal 10 percent of the aggregate amount advanced on all eligible loans originated by an insured pursuant to the provisions of these Regulations on and after March 1, 1950, and prior to July 1, 1955, less the amount of all claims approved for payment by the Commissioner in connection with such loans and less the amount of the adjustment or adjustments, if any, made pursuant to section 5 of this Regulation.
5. *Adjustment of 1950 reserve.*—The amount of the 1950 insurance reserve to the credit of each insured shall be adjusted on January 1, 1953, and on the first day of each semiannual period thereafter by deducting therefrom an amount equivalent to one-fifth of the amount of such insurance reserve on the records of the Commissioner as of the date of such adjustment: *Provided*, That no such adjustment shall reduce the insurance reserve of any insured to an amount less than \$5000.00: *And Provided further*, That no such adjustment shall be made in the insurance reserve of any financial institution until the first day of January or the first day of July next following the expiration of a period of 30 months after the issuance of a Contract of Insurance to such institution by the Commissioner, and no such adjustment shall be made in the insurance reserve of any financial institution after the termination of the Contract of Insurance issued to such institution by the Commissioner, or after the termination of the Commissioner's authority to insure against losses pursuant to section 2 of Title I of the National Housing Act.
6. *Transfer of loans reported for insurance.*—The insured shall not assign or otherwise transfer any loan reported for insurance to a transferee not holding a Contract of Insurance under Title I of the National Housing Act, provided that nothing contained herein shall be construed to prevent the pledging of such loans as collateral security under a trust agreement, or otherwise, in connection with a bona fide loan transaction.
7. *Transfer of insurance reserve.*—Insurance reserve of more than \$5,000 shall not be transferred to or from the reserve account of any insured during any fiscal year (July 1 through June 30) without the prior approval of the Commissioner. Except in cases involving the transfer of loans sold with recourse or under a guaranty, guarantee, or repurchase agreement, the reports required by Regulation X shall be submitted, indicating the intent of the parties with respect to the transfer of the insurance reserve; and unless the approval of the Commissioner is obtained, the insurance reserve shall be transferred as follows:

- (a) In cases involving the transfer of notes purchased without recourse, guaranty, guarantee, or repurchase agreement, provided no installment payment is past due more than one calendar month at the time of purchase, 1947 reserve shall be transferred to the 1947 reserve of the purchasing institution, and 1950 reserve shall be transferred to the 1950 reserve of the purchasing institution, on the basis of 10 percent of the actual purchase price or net unpaid original advance, whichever is the lesser.
 - (b) In cases involving the transfer of notes sold with recourse or under a guaranty, guarantee, or repurchase agreement, no insurance reserve will be transferred and no reports will be required.
1. *FHA recovery shall not affect reserve.*—Amounts which may be salvaged by the Commissioner with respect to a loan in connection with which an insured has been reimbursed under its Contract of Insurance shall not be added to the insurance reserve remaining to the credit of such insured.

REGULATION XIII

INSURANCE CHARGE

1. *Rate.*—The insured shall pay to the Commissioner an insurance charge equal to $\frac{3}{4}$ of 1 per centum per annum of the net proceeds of any eligible loan reported and acknowledged for insurance: *Provided*, That in the case of a class 1 (b) loan in excess of \$2,500, exclusive of financing charges, and in the case of a class 2 (b) loan having a maturity in excess of 7 years, such insurance charge shall be $\frac{1}{2}$ of 1 per centum per annum. In computing the insurance charge, no charge shall be made for the fractional period of a month of 15 days or less, and a charge for a full month shall be made for the fractional period of a month of more than 15 days.
1. *When payable.*—Such insurance charge for the entire term of the loan shall be paid within 25 days after the date the Commissioner acknowledges receipt to the insured institution of the report of loan: *Provided*, That on loans having a maturity in excess of 3 years and 32 days, such charge may be paid in installments, the first of which shall be equal to the charge for 3 years and be paid within said 25 days, and the second and succeeding installments, each equal to the charge for 1 year, shall be paid on the first and each succeeding anniversary of the first day of the month following the date of the note.
1. *Notes transferred.*—Any adjustments of the insurance charge already paid on any obligation transferred between insureds shall be made by the insureds, except that any unpaid installments of the insurance charge shall be paid by the purchasing insured.

4. *Refund or abatement.*—There shall be no refund or abatement of any portion or installment of the insurance charge except:
- (a) The charge on a refinanced note may be credited with the unearned portion of the charge on the original note;
 - (b) Insurance charges falling due after claim is filed on the note is prepaid in full;
 - (c) The charge paid on a loan or portion thereof found to be ineligible.
5. *When not chargeable to borrower.*—The insurance charge paid by the insured shall not be charged to the borrower if such charge would cause the total payments made by the borrower to exceed the maximum permissible amount which may be charged to the borrower for interest, discount, and all other charges in connection with the transaction.

REGULATION XIV

ADMINISTRATIVE REPORTS AND EXAMINATION

The Commissioner, or his authorized representative, may at any time call upon an insured for such reports as he may deem to be necessary in connection with these Regulations, or may inspect the books or accounts of the insured as they pertain to the loans reported for insurance.

REGULATION XV

AMENDMENTS

These Regulations may be amended by the Commissioner at any time, but such amendment shall not adversely affect the insurance privileges of an insured with respect to any loan previously made.

REGULATION XVI

EFFECTIVE DATE

These Regulations are effective as to all loans made on or after July 1, 1947, pursuant to the provisions of Title I of the National Housing Act, as amended, and shall have the same force and effect as if included in and made a part of each Contract of Insurance.

Issued at Washington, D. C., December 31, 1953, as a reprint of the "Regulations of the Federal Housing Commissioner Governing Property Improvement Loans effective July 1, 1947," to include all amendments through December 18, 1953.

GUY T. O. HOLLYDAY,
Federal Housing Commissioner.

NATIONAL HOUSING ACT, AS AMENDED

TITLE I—HOUSING RENOVATION AND MODERNIZATION

INSURANCE OF FINANCIAL INSTITUTIONS

Sec. 2. (a) The Commissioner¹ is authorized and empowered upon such terms and conditions as he may prescribe, to insure banks, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, and other such financial institutions, which the Commissioner finds to be qualified by experience or facilities and approves as eligible for credit insurance, against losses which they may sustain as a result of loans and advances of credit, and purchases of obligations representing loans and advances of credit, made by them on and after July 1, 1939, and prior to July 1, 1955² for the purpose of financing alterations, repairs, and improvements upon or in connection with existing structures, and the building of new structures, upon urban, suburban, or rural real property (including the restoration, rehabilitation, rebuilding, and replacement of such improvements which have been damaged or destroyed by earthquake, conflagration, tornado, hurricane, cyclone, flood, or other catastrophe), by the owners thereof or by lessees of such real property under a lease expiring not less than 6 months after the maturity of the loan or advance of credit. In no case shall the insurance granted by the Commissioner under this section to any such financial institution on loans, advances of credit, and purchases made by such financial institution for such purposes on and after July 1, 1939, exceed 10 per centum of the total amount of such loans, advances of credit, and purchases. The aggregate amount of principal obligations of all loans, advances of credit, and obligations purchased with respect to which insurance may heretofore or hereafter granted under this section and outstanding at any one time shall not exceed \$1,750,000,000.³

(b) No insurance shall be granted under this section to any such financial institution with respect to any obligation representing any such loan, advance of credit, or purchase by it (1) if the amount of such loan, advance of credit, or purchase made for the purpose of financing the alteration, repair, or improvement of existing structures exceeds \$2,500, or for the purpose of financing the construction of new structures exceeds \$3,000⁴ (2) if such obligation has a maturity in excess of three years and 32 days except that such maturity limitation shall not apply if such loan, advance of credit, or purchase is for the purpose of financing the construction of a new structure for use in whole or in part for agricultural purposes,⁵ or (3) unless the obligation bears such interest, has such maturity, and contains such other terms, conditions, and restrictions as the Commissioner shall prescribe, in order to make credit available for the purposes of this title: *Provided*, that insurance may be granted to any such financial institution with respect to any obligation not in excess of \$10,000 and having a maturity not in excess of 1 year and 32 days representing any such loan, advance of credit, or purchase

¹ Under Reorganization Plan No. 3 of 1947, effective July 27, 1947, the office of Federal Housing Administrator was abolished and all his functions and duties transferred to a Federal Housing Commissioner to be appointed by the President with advice and consent of the Senate.

² As amended by P. L. 5, 83d Cong., approved March 10, 1953.

or hereafter granted under this section, and to collect or compromise claims assigned to or held by him and all legal or equitable rights accruing in connection with the payment of such insurance until such time as such claims may be referred to the Attorney General for suit or collection.

(2) The Commissioner is authorized and empowered (a) to deal with, complete, rent, renovate, modernize, insure, or sell for cash or credit in full or in part, and upon such terms and conditions and for such consideration as the Commissioner shall determine to be reasonable, any real property conveyed or otherwise acquired by him in connection with the payment of insurance before or hereafter granted under this title and (b) to pursue to final judgment by way of compromise or otherwise, all claims against mortgagors as against mortgagees to the Commissioner in connection with such real property in case of deficiency or otherwise: *Provided*, That section 3709 of the Revised Statutes shall not be construed to apply to any contract of hazard insurance, purchase or contract for services or supplies on account of such property, the amount thereof does not exceed \$1,000. The power to convey and transfer in the name of the Commissioner deeds of conveyance, deeds of release, judgments and satisfactions of mortgages, and any other written instruments relating to real property or any interest therein heretofore or hereafter executed by the Commissioner pursuant to the provisions of this title may be exercised by the Commissioner or by any Assistant Commissioner appointed without the execution of any express delegation of power or power of attorney. *Provided*, That nothing in this paragraph shall be construed to prevent the Commissioner from delegating such power by order or by power of attorney at his discretion, to any officer or agent he may appoint.

(d) The Commissioner is authorized and empowered, under such rules and regulations as he may prescribe, to transfer to any such approved financial institution any insurance in connection with any loans and advances of credit which may be made to it by another approved financial institution.

(e) The Commissioner is authorized to waive compliance with any

(f) The Commissioner shall fix a premium charge for the insurance hereafter granted under this section, but in the case of any obligation representing any loan, advance of credit, or purchase, such premium charge shall not exceed an amount equivalent to 1 per centum per annum of the net proceeds of such loan, advance of credit, or purchase, for the term of such obligation, and such premium charge shall be payable in advance by the financial institution and shall be paid at such time and in such manner as may be prescribed by the Commissioner. The moneys derived from such premium charges and all moneys collected by the Commissioner as fees of any kind in connection with the granting of insurance as provided in this section, and all moneys derived from the sale, collection, disposition, or compromise of any evidence of debt, contract, claim, property, or security assigned to or held by the Commissioner as provided in subsection (c) of this section with respect to insurance granted on and after July 1, 1939, shall be deposited in an account in the Treasury of the United States, which account shall be available for defraying the operating expenses of the Federal Housing Administration under this section, and any amounts in such account which are not needed for such purpose may be used for the payment of claims in connection with the insurance granted under this section.

(g) The Commissioner is authorized and directed to make such rules and regulations as may be necessary to carry out the provisions of this title.

* * * * *

Form FHL-1
(Rev. 1-54)**FHA TITLE I CREDIT APPLICATION**
(PROPERTY IMPROVEMENT LOAN)Form approved
Budget Bureau No. G-2821To: _____ DATE _____ 19____
This application is submitted to obtain credit under the terms of Title I of the National Housing Act.NET AMOUNT CREDIT REQUIRED \$ _____ NUMBER MONTHS _____ Have you any other application pending at this time for an FHA improvement loan? Yes ☐ or No ☐
Name of applicant _____ How long at present address? _____ years

Address _____ (Street) (City) (P. O. Box) (State) Telephone _____

Year of birth _____ Single ☐ Married ☐ Name of wife (or husband) _____ Number of other dependents _____

Name and address of nearest relative not living with you _____ (Name) (Street) (City) (State)

EMPLOYMENT OR BUSINESSEmployed by ☐ or business if self-employed ☐ For past _____ years

Address _____ (Street) (City) (State) Kind of business _____

Present salary or net income from business, \$ _____ per month ☐ per year ☐ Your position _____ Business telephone _____Other income (net), \$ _____ per month ☐ per year ☐ Source of other income _____

Previous employer _____ (Name) (Street) (City) (State) For _____ years

REFERENCES

GIVE NAME AND ADDRESS OF BANKS, FINANCE COMPANIES, OR STORES WHICH HAVE EXTENDED YOU CREDIT

1. _____ 2. _____
3. _____ 4. _____**DEBTS**

List fixed obligations, installment accounts, mortgages, FHA LOANS and debts to banks, finance companies and Government agencies.

To Whom Incurred (Name)	DEBTORS DEDUCTIONS	DATE INCURRED	PAYMENT BALANCE	MONTHLY PAYMENTS	AMOUNT PAID DATE	Is Debt as FHA Improvement on House Loan? (State when)
_____	_____	_____	\$ _____	\$ _____	\$ _____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

PROPERTY TO BE IMPROVED

Address _____ (Street) (City) (County) (State) Type _____ (House, apartment, store, farm, etc.)

Is owned by _____ (Name of titleholder) Date purchased _____ Price paid, \$ _____
ORIs being bought on contract by _____ (Name of purchaser) Contract dated _____ Price paid, \$ _____
OR

Is leased to _____ (Name of leaseholder) Lease expires _____ (Month) (Day) (Year)

(Landlord's name) (Address) Rent per month, \$ _____**PROCEEDS OF THIS LOAN WILL BE USED ON ABOVE PROPERTY AS DESCRIBED BELOW**

DESCRIBE EACH IMPROVEMENT PLANNED ESTIMATED COST NAME AND ADDRESS OF CONTRACTOR/DEALER

1. _____ \$ _____
2. _____ \$ _____
3. _____ \$ _____**APPLICANT—IMPORTANT—READ BEFORE SIGNING**

The selection of a contractor or dealer, acceptance of materials used, and work performed is YOUR responsibility. Neither the FHA nor the financial institution guarantees the material or workmanship or inspects the work performed.

I (we) certify that the above statements are true and that no unfavorable information known to me (us) or called for herein has been omitted. This application shall remain the property of the lending institution to which submitted.

WARNING

Any person who knowingly makes a false statement or a misrepresentation in this application shall be subject to a fine of not more than \$2000 or by imprisonment for not more than 2 years, or both, under provisions of the United States Criminal Code.

Name _____ (L. S.)

Name _____ (L. S.)

NOTE TO FINANCIAL INSTITUTION.—If proceeds will be disbursed to dealer the person selling the above-described improvements must sign here _____ (L. S.)

If applicant is self-employed, a business enterprise, a partnership, or a corporation, fill in exhibits A and B on reverse side. 16-5287-1

HOUSING ACT OF 1954

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it is self-employed, a business enterprise, a partnership, or a corporation the following information should be given in as a manner as possible.

A and B are designed primarily for the self-employed, a business enterprise, a partnership, or a corporation. Applicants may want to submit their own financial statements, making them a part of this application; therefore, applicants may attach a balance sheet and profit and loss statement, preferably certified to by an independent accountant, provided that such statements reflect information substantially in accord with the following:

EXHIBIT A—Balance Sheet as of _____, 19____

ASSETS		LIABILITIES	
accounts receivable.....	\$.....	Notes payable.....	\$.....
tax.....	.....	Accounts payable.....	.....
land.....	.....	Mortgages on real estate.....	.....
buildings.....	.....	Other liabilities.....	.....
equipment, and fixtures.....	.....	Net worth.....	.....
cash.....	.....	
TOTAL.....	\$.....	TOTAL.....	\$.....

EXHIBIT B—Profit and loss statement for year ending _____, 19____

beginning.....	\$.....	Gross profit.....	\$.....
net.....	.....	Operating and general expenses.....	.....
end.....	.....	Officers' salaries.....	.....
tax.....	.....	Taxes.....	.....
loss.....	.....	Income from other sources.....	.....
Net profit or loss.....	\$.....	Net profit or loss.....	\$.....

Title I Plan—GROSS CHARGE TABLE

For use of insured institutions which add the finance charge to the amount to be financed
Based on a discount of 5% on a 1-year note payable in equal monthly installments

12 Months		18 Months		24 Months		30 Months		36 Months	
Amount of note	Monthly payment	Amount of note	Monthly payment	Amount of note	Monthly payment	Amount of note	Monthly payment	Amount of note	Monthly payment
\$1.05	\$0.09	\$1.08	\$0.08	\$1.10	\$0.05	\$1.13	\$0.04	\$1.15	\$0.04
2.11	.18	2.15	.12	2.20	.10	2.25	.08	2.30	.07
3.16	.27	3.23	.18	3.30	.14	3.38	.12	3.45	.10
4.21	.36	4.31	.24	4.40	.19	4.50	.15	4.60	.13
5.26	.44	5.38	.30	5.51	.23	5.63	.19	5.75	.16
6.32	.53	6.46	.36	6.61	.28	6.75	.23	6.90	.20
7.37	.62	7.54	.42	7.71	.33	7.88	.27	8.05	.23
8.42	.71	8.62	.48	8.81	.37	9.00	.30	9.20	.26
9.47	.79	9.69	.54	9.91	.42	10.13	.34	10.35	.30
10.53	.88	10.77	.60	11.01	.46	11.26	.38	11.50	.32
21.05	1.76	21.54	1.20	22.02	.92	22.51	.76	23.00	.64
31.58	2.64	32.31	1.80	33.04	1.38	33.77	1.13	34.49	.96
42.11	3.51	43.08	2.40	44.05	1.84	45.02	1.51	45.99	1.28
52.63	4.39	53.85	3.00	55.06	2.30	56.28	1.88	57.49	1.60
63.16	5.27	64.62	3.59	66.07	2.76	67.53	2.28	68.99	1.92
73.68	6.14	75.38	4.19	77.09	3.22	78.79	2.63	80.49	2.24
84.21	7.02	86.15	4.79	88.10	3.68	90.04	3.01	91.98	2.56
94.74	7.90	96.92	5.39	99.11	4.13	101.30	3.38	103.48	2.88
105.26	8.78	107.69	5.99	110.12	4.59	112.55	3.76	114.98	3.20
210.53	17.55	215.38	11.97	220.24	9.18	225.10	7.51	229.96	6.39
315.79	26.32	323.06	17.95	330.36	13.77	337.65	11.26	344.94	9.59
421.05	35.09	430.77	23.94	440.49	18.36	450.20	15.01	459.92	12.78
526.32	43.86	538.46	29.92	550.61	22.95	562.75	18.76	574.90	15.97
631.58	52.64	646.15	35.90	660.73	27.54	675.30	22.52	689.88	19.17
736.84	61.41	753.85	41.89	770.85	32.12	787.85	26.27	804.86	22.36
842.11	70.18	861.54	47.87	880.97	36.71	900.40	30.02	919.94	25.56
947.37	78.95	969.23	53.85	991.09	41.30	1,012.96	33.77	1,034.82	28.75
1,052.63	87.72	1,076.92	59.83	1,101.22	45.89	1,125.51	37.52	1,149.80	31.94
2,105.26	175.44	2,153.84	119.66	2,202.43	91.77	2,251.01	75.04	2,299.59	63.88
3,157.90	263.16	3,230.61	179.59	3,303.64	137.71	3,413.77	113.80	3,524.90	99.85

Installment payments have been set at the next full cent nearest the fractional result. An adjustment should be initial or final payment to have the total payments equal the face amount of the note.

U. S. GOVERNMENT PRINTING OFFICE 16-5232-10

FD-4
(Revised October 1949)**FHA TITLE I COMPLETION CERTIFICATE**

(WORK DONE ON MATERIALS DELIVERED)

Form approved
Budget Bureau No. 45-2884-1.To: _____ of _____
(Financial Institution) (Address)

In accordance with my (our) Credit Application dated _____, for a loan pursuant to the provisions of Title I of the National Housing Act:

CHECK HERE IF LOAN IS TO PAY FOR COST OF MATERIALS AND INSTALLATION.☐ I (We) hereby certify that all articles and materials have been furnished and installed and the work satisfactorily completed on premises indicated in my (our) Credit Application.**CHECK HERE IF LOAN COVERS ONLY THE PURCHASE OF MATERIALS.**☐ I (We) hereby acknowledge receipt in satisfactory condition of the materials described in my (our) Credit Application.

I (We) certify that I (we) have not been given or promised a cash payment or rebate nor has it been represented to me (us) that I (we) will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction. I (we) understand that the selection of the dealer and the acceptance of the materials used and the work performed is my (our) responsibility and that neither the FHA nor the financial institution guarantees the material or workmanship or inspects the work performed.

DO NOT SIGN this certificate until you are satisfied that the dealer has carried out his obligations to you and that the work or the materials have been satisfactorily completed or delivered.

Date _____

Borrower

Signature _____

(READ BEFORE SIGNING)

Borrower

Signature _____

(READ BEFORE SIGNING)

For the purpose of inducing the payment of proceeds of this loan and the insurance thereof by the FHA the undersigned certifies and warrants that:

(1) The above work or materials constitute the entire consideration for which this loan is made. (2) A copy of the contract or sales agreement has been delivered to the borrower and the above financial institution. (3) This contract contains the whole agreement between the borrower and the above financial institution or lender and no other agreement or understanding has been entered into between the borrower and the above financial institution or lender. (4) The borrower has not been given or promised a cash payment or rebate nor has it been represented to the borrower that he will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction. (5) The work has been satisfactorily completed or materials delivered. (6) The above certificate was signed by the borrower after such completion or delivery. (7) The signatures hereon and on the note are genuine. (8) All bills for labor or materials have been or will be paid.

If any of the above representations prove incorrect, the undersigned agrees to promptly repurchase the note from the financial institution or from the FHA as the case may be.

**DEALER
SIGN HERE**

Date _____

By _____

(Name of dealer)

(Signature)

WARNING: Any person who knowingly makes a false statement or a misrepresentation in this certificate shall be subject to a fine of not more than \$5,000 or to imprisonment for not more than 3 years, or both, under provisions of the United States Criminal Code.

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FHA TITLE I DEALER APPLICATION

Form approved
Budget Bureau No. 63-2844

(Insured Institution)

(Date)

The following information is furnished for the purpose of inducing you to approve my (our) application as a dealer, pursuant to the provisions of Regulation VIII, Section 1(a) issued by the Federal Housing Board under the authority contained in Title I of the National Housing Act.

DE NAME _____ Phone _____
 (Street) (City) (Zone) (State) For past _____ years

an Address _____ For _____ years
 (Street) (City) (State)

OF BUSINESS _____ Date Established _____
 (General contracting, lumber yard, heating, etc.)

REF: ☐ Sole Owner ☐ Partnership ☐ Corporation

NAME: _____ (Name) (Title) (Home Address)

_____ (Name) (Title) (Home Address)

_____ (Name) (Title) (Home Address)

REFERENCES: (Name suppliers of major products financed under Title I FHA)

Name

Address

F DEPOSIT _____

DISCOUNTED PAPER WITH:

(Name) (Address) From (year) to (year)

(Name) (Address) From (year) to (year)

or to be financed represents the sale of a specialty product, indicate trade name and manufacturer

(Attach descriptive literature and price list)

Area _____ No. of Branches _____

s of Branches _____

be any guaranty given buyers _____

ial statement as of _____ is attached.
 (Date)

(we) understand that I (we) are fully responsible for the Title I activity of all sales personnel, ethical and proper selling practices will be followed, and that immediate attention will be given to complaints involving materials, workmanship or sales representations.

(we) certify that the statements are true. I (we) understand this application shall remain the property of the financial institution to which it is submitted and, if requested, a copy may be furnished to Federal Housing Administration.

Firm _____

Name _____

(Title)

RE: Any person who knowingly makes a false statement or a misrepresentation in this application shall be subject to a fine of not more than \$5,000 or to imprisonment for not more than 2 years, or both, under provisions of the United States Criminal Code.

FEDERAL HOUSING ADMINISTRATION
WASHINGTON 25, D. C.

October 28, 1953

(TIF-102)

ALL STATE AND DISTRICT DIRECTORS

: AMENDMENTS TO PART I OF THE TITLE I REGULATIONS

Attached is a copy of our letter, TI-101, dated October 28, 1953 to qualified Title I Lending Institutions announcing amendments to Part I Title I Regulations.


Also attached are copies of the revised Completion Certificate, FH-2, Form FH-13, FHA Title I Dealer Application. A temporary working set of these new forms will be shipped to you within the next few days. Print order has been given to the Government Printing Office and should be available for distribution within two or three weeks.

Because the use of the new completion certificate, FH-2, is not mandatory until January 1, 1954, lenders may accept the old forms until this date. Therefore, continue to furnish the old certificate, if in stock until your supply of the new forms is received. At that time, the old stock still on hand should be destroyed.

There will be forwarded to you also a small supply of the new amendments which would be inserted in any copies of the Regulations booklet (Form FH-20) in stock so that copies of this booklet hereafter released by you will be in every respect.

Although our letter TI-101 is self-explanatory, we wish to emphasize the importance of taking whatever steps are necessary to see that the procedural requirements required by these amendments are promptly carried out by all lending institutions in your jurisdiction. Further, these amendments should be discussed with those of your staff concerned with Title I activity and discussed in your Title I Lenders' Committee Meetings.

Very truly yours,

Arthur J. Frentz
Assistant Commissioner

HOUSING ACT OF 1954

FEDERAL HOUSING ADMINISTRATION
WASHINGTON 25, D. C.

October 28, 1953

(TI-101)

TO: ALL QUALIFIED TITLE I LENDING INSTITUTIONS

SUBJECT: AMENDMENTS TO PART I OF THE TITLE I REGULATIONS
 AMENDMENT TO REGULATION III, SECTION 3
 AMENDMENT TO REGULATION VIII, SECTIONS 1(a),
 1(b), 1(c) AND SECTION 3
 AMENDMENT TO REGULATION XI, SECTION 2,
 SECTION 3 AND SECTION 5(d)(3)

The home improvement program under Title I of the National Housing Act was instituted with the primary objective of assisting home owners in maintaining better housing standards. Full attainment of this objective has been made difficult because of the activities of a relatively few unscrupulous dealers and salesmen who have taken advantage of the basic "good faith" concept on which the program is founded to victimize property owners through unethical business practices.

The Administration has vigorously opposed such practices and has adopted a number of procedural steps designed to eliminate the unethical operator from the home improvement field. With the tremendous increase in Title I volume in recent years, however, reports of irregular dealer activities have continued to come to our attention.

In order to provide the home owner with further protection against such abuses, Commissioner Guy T. O. Hollyday has amended today Part I of the Title I Regulations. A copy of the new amendments is attached and there follows a summary of the changes with pertinent comment.

DEALER APPLICATION - FORM FH-13

Regulation VIII, Section 1(a)

Effective December 1, 1953, it will be required that the approval of the dealer by the insured be evidenced by an application signed and dated by the dealer on a form approved by the Commissioner. It is further required that the signed and dated approval by the insured be on a form approved by the Commissioner. These required forms have been consolidated into the attached Form FH-13 supplied by this Administration. Approval to reproduce these two forms, jointly or separately, is hereby given provided there is no omission of any of the contents.

It is not required that the prescribed application be obtained from dealers previously approved by the insured and to whom the insured has disbursed loans during the 12 month period prior to December 1, 1953.

The items of information on the dealer application form are considered to be minimum and it is urged that lenders obtain such additional data as may be warranted under the circumstances of the individual case. It frequently may be desirable to have a dealer furnish the names and addresses of all sales personnel presently employed in order that the antecedents and other background information on these individuals may be obtained.

The amendment now makes it mandatory that the insured maintain a record of its experience with the loans originated henceforth by all of its approved dealers. Such record should reflect at least the volume of loans purchased, claims filed and borrower complaints received or irregularities discovered.

Lending institutions are urged to review the subject of dealer approval discussed in the explanatory text in the printed Regulations booklet and also review our letter of July 15, 1953, (TI-99) on the same subject.

Failure on the part of the insured institution to have in its file the signed and dated application of the dealer together with supporting information and the insured's signed and dated approval shall be considered a violation of the Regulations. Loans purchased from such dealer will be considered as failing to meet the requirements of the insurance contract.

POWER-DEALER COMPLETION CERTIFICATE

Regulation VIII, Section 1(b)

This amendment stipulates that loans originated under the inducement of a bonus promise or a cash payment will not be accepted for insurance if the insured institution has knowledge of such practices. The Completion Certificate, Form FH-2, (copy attached) has been revised so that both the borrower and the dealer must certify that no bonus or cash payment was given or promised in connection with the transaction. Insured may rely upon the statements of the borrower and the dealer in their completion certificate in the absence of information to the contrary.

The completion certificate has been further revised so that the borrower makes affirmative statement that he understands that the selection of the dealer and acceptance of the materials and workmanship are his responsibility rather than that of the lending institution or the Federal Housing Administration. In the dealer's portion of the certificate there has been added a statement that all bills for labor and material have been or will be paid and further, an agreement by the dealer to repurchase, if any of his representations made on the certificate are found to be incorrect.

Existing stocks of completion certificates may be used until exhausted but in event after January 1, 1954. In accepting the old completion certificate forms lending institutions should be alert for any evidence of bonus sales practices or misuses of cash payment. It is well to caution all dealers against the use of such sales methods in connection with Title I transactions.

The new form of completion certificate may be reproduced provided the minimum size is 8 x 7 inches and there is no deviation as to content or format.

ADVANCE NOTICE TO THE BORROWER

Regulation VIII, Section 1(c)

This subsection is new and requires the insured institution to deliver a notice to the borrower of the approval of his credit application. This notice must be delivered to the borrower at least six calendar days prior to disbursing the note proceeds to the dealer. For example, if the advance notice is mailed on the first day of the month, disbursement shall not be made until the seventh day of the month or thereafter.

It is not required that the borrower acknowledge receipt of the notice. However, the insured must have a record of having mailed or delivered such notice. An acceptable record of delivery would be a dated carbon copy of the notice or a dated entry in the borrower's loan file.

The purpose of the advance notice is to bring about a closer relationship between the insured institution and the home owner and to make certain that the home owner understands the basic terms of the transaction.

This form will not be supplied by the Administration as it is believed that institutions should issue the notice on their own stationery. As the Regulations require such notice on a form approved by the Commissioner, this letter shall be considered as official approval of any notice that contains in its text the following minimum data:

Letterhead of Institution

ADVANCE NOTICE TO APPLICANT FOR FHA TITLE I LOAN

_____ Date _____
 (Borrower's Name)

 (Address)

We have approved your FHA application for credit in the net amount of \$ _____, for _____ months under Title I of the National Housing Act as presented to us by _____.
 (Dealer)

Please notify us immediately if you have any questions regarding the transaction.

 (Name of Institution)

Lenders are encouraged to add to this notice any additional material that may be helpful to the home owner in fully understanding the transaction. Notices already in use by some lenders indicate the gross amount of the loan, the amount of the monthly payment and the finance charge. Frequently, a warning is expressed against bonus selling and the borrower is cautioned that the completion certificate should not be signed until he is satisfied as to the completion of the job.

NOT LOANS

Regulation VIII, Section 3

This section stipulates that the provisions of Section 1 and Section 2 shall apply to those loans where the proceeds are delivered directly to the borrower. However, if the dealer participates in the disbursement in any manner, such as having proceeds check (although made payable to the borrower) delivered to the dealer, the insured institution, or if the dealer accompanies the borrower to the institution on the occasion of disbursement for the obvious purpose of receiving the proceeds, then the provisions of Section 1 and Section 2 must be followed. Insured institutions should be on the alert to see that the protective measures prescribed use in connection with dealer originated loans are not avoided by any subterfuge.

1M AFTER DEFAULT

Regulation XI, Section 2

There has been some question as to how soon a claim for reimbursement for 1M may be submitted to the Administration in view of the parenthetical clause in Regulation XI, Section 2 indicating that default was the earliest installment for which full payment has not been received. The amended Regulation removes this restriction so that claim may be made any time after default in any provision of note provided demand has been made on the debtor for the full unpaid balance.

1M CLAIM PERIOD

Regulation XI, Section 3

The word "Section" is substituted for the word "Regulation" to avoid any misunderstanding as to the maximum claim period prescribed by this Section.

1M AMOUNT - ATTORNEY FEES

Regulation XI, Section 5(d)(3)

This amendment now provides additional reimbursement to the insured for winning judgment in instances where the action is contested. The insured may in \$50 plus 5% of the balance due on the note if judgment is recovered in a contested action. This is in addition to the \$25 (or 1% of the balance due) permitted Subsection 5(d)(2).

1M GIBLE NOTES - PAYMENTS

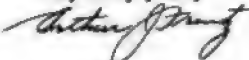
Regulation III, Section 3

The amendment to Regulation III, Section 3 now permits an adjustment of either first installment or the final installment provided such payment is not less than 1 1/2 times the amount of regular installments.

A supply of the new forms (Dealer Application, Form FH-13 and Completion Certificate, Form FH-2) are now being shipped to the FHA Field offices and lending institutions may obtain a working quantity within the next few days. Lenders are requested to cooperate by deferring their requisitions for a bulk shipment until after initial distribution has been effected.

Misrepresentations and sales irregularities have no part in the Title I program. We believe that the steps now being taken, coupled with the united effort of lending institutions and responsible dealers throughout the country, will provide sound operation for the benefit of the entire community.

Very truly yours,



Arthur J. Frents
Assistant Commissioner

113621

44750 O-54-pt. 3-37

AMENDMENT TO PART I OF THE REGULATIONS
OF THE
FEDERAL HOUSING COMMISSIONER
GOVERNING PROPERTY IMPROVEMENT LOANS
EFFECTIVE JULY 1, 1947

Part I of the Regulations of the Federal Housing Commissioner Governing Property Improvement Loans, effective July 1, 1947, as amended, is further amended as hereinafter provided.

The second sentence of Regulation III, Section 3 is hereby amended to read as follows:

"The first installment or the final installment may be more or less than the other installments provided that it is not less than one-half or more than one and one-half times the amount of a regular installment."

Regulation VIII is hereby amended, effective December 1, 1953, to read as follows:

"1. Disbursement — Before disbursing the proceeds of a loan, the insured shall:

"(a) Dealer approval — Have approved the dealer after such investigation as the insured considers necessary to establish to its satisfaction that the dealer is reliable, financially responsible and qualified to perform satisfactorily the work to be financed and to extend proper service to the customer. This approval shall be evidenced by an application signed and dated by the dealer and signed and dated by the insured on forms approved by the Commissioner. The dealer application, the approval by the insured, together with supporting information and a record of the insured's experience with the loans originated by such dealer shall be in the insured's file. New dealer applications and dealer approvals need not be executed in connection with dealers who have been approved and to whom the insured has disbursed loans during the 12 month period prior to December 1, 1953. For the purpose of this regulation the term "dealer" means the one who executed the dealer's completion certificate.

"(b) Completion certificates — Obtain a completion certificate signed by the borrower and a completion certificate signed by the dealer on forms approved by the Commission: An insured shall not disburse the proceeds of a loan, if, as an inducement for the consummation of the transaction, the borrower has been given or promised a cash payment or rebate or it has been represented to the borrower that he will receive a cash bonus or commissions on future sales. In the absence of information to the contrary, the insured may rely upon the dealer's statement in his completion certificate as to such bonus selling. If there are two or more eligible borrowers involved in a transaction, only one signature is required on the borrower's certificate.

"(c) Authorization to pay loan proceeds — No Change.

"(d) Description of improvements — No Change.

"(e) Advance notice to applicant --Mail to the borrower or personally deliver to the borrower written notice of approval of the application for credit on a form approved by the Commissioner. Such notice shall be directed to the borrower prior to disbursement of the loan and in no event less than six calendar days prior to such disbursement. A record of such notice showing the date of mailing or delivery to the borrower shall be in the loan file.

"2. Precautionary measures -- No Change.

"3. Exceptions --The provisions of Sections 1 and 2 of this Regulation shall not apply to loans made directly to the borrower or borrowers where the proceeds are delivered directly to such borrower or borrowers without the intervention or participation of the dealer or other intermediary in any manner in such disbursement."

Regulation II, Section 2 is amended to read as follows:

"2. Claim after default --Claim may be made after default provided demand has been made upon the debtor for the full unpaid balance of the note."

Regulation II, Section 3 is amended to read as follows:

"3. Maximum claim period --For the purpose of determining when a claim must be filed under the provisions of this section, any payments received on an account, including payments on a judgment predicated thereon, shall be applied to the earliest unpaid installment, and in the case of:

"(a) Yearly installment notes -- No Change.

"(b) All other installment notes -- No Change.

"(c) Military service cases -- No Change.

Regulation II, Subsection 5(d), is hereby amended effective as to claims certified for payment on or after December 1, 1953 to read as follows:

"(d) Attorney's fees actually paid not exceeding:

"(1) No Change

"(2) No Change

"(3) Fifty dollars plus 5 percent of the balance due on the note as an additional fee where the action is contested and judgment is obtained."

Issued at Washington, D. C. October 28, 1953

Guy T. O. Hollyday
Federal Housing Commissioner

113822

FD-4
(Revised October 1943)

FHA TITLE I COMPLETION CERTIFICATE

Form approved by the Federal Reserve Board, 12-13-1943.
(WORK DONE ON MATERIALS DELIVERED)

To: _____ of _____ (Financial Institution) _____ (Address)

In accordance with my (our) Credit Application dated _____, for a loan pursuant to the provisions of Title I of the National Housing Act:

CHECK HERE IF LOAN IS TO PAY FOR COST OF MATERIALS AND INSTALLATION.☐ I (We) hereby certify that all articles and materials have been furnished and installed and the work satisfactorily completed on premises indicated in my (our) Credit Application.**CHECK HERE IF LOAN COVERS ONLY THE PURCHASE OF MATERIALS.**☐ I (We) hereby acknowledge receipt in satisfactory condition of the materials described in my (our) Credit Application.

I (We) certify that I (we) have not been given or provided a cash payment or rebate nor has it been represented to me (us) that I (we) will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction. I (we) understand that the selection of the dealer and the acceptance of the materials used and the work performed is my (our) responsibility and that neither the FHA nor the financial institution guarantees the material or workmanship or inspects the work performed.

DO NOT SIGN this certificate until you are**NOTICE** satisfied that the dealer has carried out his**TO** obligations to you and that the work or the**BORROWER** materials have been satisfactorily completed

or delivered.

For the purpose of including the payment of proceeds of this loan and the insurance thereof by the FHA the undersigned certifies and warrants that:

(1) The above work or materials constitute the entire consideration for which this loan is made. (2) A copy of the contract or sales agreement has been delivered to the borrower and the above financial institution. (3) This contract contains the whole agreement with the borrower. (4) The borrower has not been given or promised a cash payment or rebate nor has it been represented to the borrower that he will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction. (5) The work has been satisfactorily completed or materials delivered. (6) The above certificate was signed by the borrower after such completion of materials have been or will be paid. (7) The signatures hereon and on the note are genuine. (8) All bills for labor or materials have been or will be paid.

If any of the above representations prove incorrect, the undersigned agrees to promptly reimburse the note from the financial institution or from the FHA as the case may be.

DEALER**SIGN HERE**

By _____

Date _____

(Name of dealer)

(Signature)

WARNING: Any person who knowingly makes a false statement or a misrepresentation in this certificate shall be subject to a fine of not more than \$5,000 or to imprisonment for not more than 5 years, or both, under provisions of the United States Criminal Code.

U. S. GOVERNMENT PRINTING OFFICE 16-54888-2

FHA TITLE I DEALER APPLICATION

Form approved
Budget Bureau No. 63-2244

(Insured Institution) _____ (Date) _____
 The information is furnished for the purpose of inducing you to approve my (our) application pursuant to the provisions of Regulation VIII, Section 1(a) issued by the Federal Housing Administration, the authority contained in Title I of the National Housing Act.

Phone _____
 (City) (Zone) (State) For past _____ years
 (Street) (City) (State) For _____ years
 Date Established _____
 (General contracting, lumber yard, heating, etc.)
☐ Sole Owner ☐ Partnership ☐ Corporation

(Name) (Title) (Home Address)
 (Name) (Title) (Home Address)
 (Name) (Title) (Home Address)

(Name suppliers of major products financed under Title I FHA)

Name Address

DEALER WITH:

(Address) From (year) to (year)
 (Address) From (year) to (year)

Financed represents the sale of a specialty product, indicate trade name and manufacturer

(Attach descriptive literature and price list)

No. of Branches _____

is _____

Amount given buyers _____

It as of _____ is attached.
 (Date)

I understand that I (we) are fully responsible for the Title I activity of all sales personnel, proper selling practices will be followed, and that immediate attention will be given to solving materials, workmanship or sales representations.

I (we) understand this application shall remain the property of the Federal Housing Administration. I (we) understand that if requested, a copy may be furnished to the Federal Housing Administration.

Firm _____

Name _____ (Title)

Who knowingly makes a false statement or a misrepresentation in this application shall be liable to a fine of not more than \$5,000 or to imprisonment for not more than 2 years, or both, under the provisions of the United States Criminal Code.

HOUSING ACT OF 1954

THIS SPACE FOR USE OF DEALER IN SUPPLYING ADDITIONAL INFORMATION

[illegible]

THIS SPACE FOR USE OF INSURED INSTITUTION

- ☐ Dealer given copy of Dealer Guide
☐ Firm and all principals checked against precautionary measures list
☐ References checked
☐ Credit report dated _____ attached
☐ Previous lenders checked
☐ Place of business inspected by _____ Date _____

Remarks _____

The dealer whose application appears on the reverse hereof has been approved after such investigation as we consider necessary to establish that the dealer is reliable, financially responsible and qualified to perform satisfactorily the work to be financed and to extend proper service to the customer.

Dealer Approved _____ 196__ By:

☆ U. S. GOVERNMENT PRINTING OFFICE 1963 O-35457

(The following answers to 73 questions submitted by the committee on title I insurance was ordered inserted in the record; see p. 1371:)

FEDERAL HOUSING ADMINISTRATION,
OFFICE OF THE COMMISSIONER,
Washington D. C., April 22, 1954.

HON. HOMER E. CAPEHART,
*Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.*

MY DEAR SENATOR CAPEHART: Enclosed is the list of the 73 questions which you gave to Mr. Frenz concerning the property improvement loan insurance program under title I of the National Housing Act. With the exception of questions numbered 68, 69 and 70, I am submitting answers of a factual nature which were prepared by members of the Federal Housing Administration staff who have been engaged in title I operations.

Question numbered 68 concerns past legislative recommendations which may have been made either by the Housing and Home Finance Agency or by the Federal Housing Administration, and will therefore be answered separately as soon as we have been able to check the required information with the Housing Administrator's office. Questions numbered 69 and 70 involve recommendations for future action with respect to the title I program. As you know, we are working on such recommendations in cooperation with the Housing Administrator, whose early response to similar questions has also been requested by your Committee. Accordingly, our further reply to these two questions will also be sent to you under separate cover.

Sincerely yours,

NORMAN P. MASON,
Acting Commissioner.

QUESTIONS REGARDING TITLE I REPAIR INSURANCE

Question 1. Is it not true that this title I house repair insurance program was first enacted in 1934 for a period of only 2 years to January 1, 1936, or such earlier date as the President might fix by proclamation?

Answer. Yes.

Question 2. Doesn't section 2 (a) of the National Housing Act make the home repair insurance program subject to such terms and conditions as the Federal Housing Commissioner may prescribe, apart from the specific limitations set forth in the National Housing Act?

Answer. Yes.

Question 3. Under that authority, hasn't the Commissioner issued a printed statement of administrative policy and regulations covering the home repair program under title I?

Answer. Yes. The most recent revision of the regulations booklet, FH-20, was issued December 31, 1953, and includes the "Regulations governing class 1 and 2 loans, effective July 1, 1947, including all amendments to December 18, 1953."

Question 4. Section 2 authorizes insurance of loans or purchases of obligations for the purpose of financing alterations, repairs, and improvements upon or in connection with existing structures as well as the building of certain new structures. What does FHA administrative policy or regulations consider such alterations, repairs, and improvements to include?

Answer. In answer to this question we are quoting below Regulation VII of Governing Regulations and Explanatory Policy pertaining thereto.

"REGULATION VII

"ELIGIBLE EXPENDITURES

"1. *Property location.*—The property to be improved shall be located within the United States, its Territories, or possessions.

"2. *Use of proceeds.*—The proceeds of a loan shall be used only to finance alterations, repairs, and improvements upon real property or in connection with existing structures, commenced in reliance upon the credit facilities afforded by Title I of the act.

"3. *Reliance on Credit Application.*—An insured acting in good faith may, in the absence of information to the contrary, rely upon all statements of fact made

by the borrower, which are called for by the borrower's Credit Application determining the eligibility of the improvements to the property.

"4. *Technical services and direct costs.*—The proceeds of a loan may be used to pay the cost of architectural and engineering services, and fees paid for obtaining building permits that are directly connected with the eligible alterations, repairs, or improvements financed in accordance with these Regulations.

"5. *Supplementing an uninsured obligation.*—The proceeds of a loan may be used to supplement another obligation of the borrower not reported on the application, the payment of which is to be secured by a prior lien created in connection with the proposed alteration, repairs, or improvements.

"ELIGIBLE IMPROVEMENTS

"The following statement of basic policy may be supplemented by a ruling as to any particular project or item about which there may be a question. The part of the lending institution, upon application to the Federal Housing Administration, Washington 25, D. C. Requests for rulings should be submitted, if possible, by descriptive or illustrated literature in the case of a specific item as well as plans and specifications where general projects and various improvements are contemplated.

"Existing structures—Class 1 (a) loans

"The structure to be improved must exist as a completed building occupied or used, was formerly occupied or used, or has been made available for occupancy or use.

"No part of a loan may be used to finance the cost of completing an existing structure. This does not exclude a loan for the repair of a previously completed structure which has been damaged but not substantially destroyed by fire, flood, flood, fire, or other casualty; nor the construction of an attached or other attached building in connection with a completed house or other buildings, such as homes, apartment houses, hotels, office buildings, orphanages, colleges, churches, and manufacturing and industrial plants.

"Eligible expenditures include those for structural alterations, repairs, and additions upon the structure itself, or in connection therewith. The improvement of the size of the structure, a new stairway, new flooring, new plumbing, wiring, painting, plastering, venetian blinds, awnings, and other systems, which in themselves are alterations and improvements, are eligible expenditures.

"Improvements in connection with the existing structure may also include such changes in the status of the ground on which the building stands as grading and landscaping, private sidewalks, private curbs, fences, and driveways; the installation of a septic tank or cesspool, the drilling of a well with necessary pumping equipment and piping, although removed from the structure but in connection with the structure, are eligible.

"A loan to convert one type of building into a different type will be eligible if a substantial part of the original building is left standing. For instance, a loan for the conversion of a single-family dwelling into an apartment would be eligible if the walls and other main structural elements are left standing. A new stairway, new windows, rooms, porch, etc., may be added if the partitions are changed.

"A loan to demolish a structure or to move a structure off the premises will not be eligible except where such demolition or moving is for the purpose of improving an existing structure remaining on the property.

"Loans to finance the cost of insulating an existing structure, putting on a new roof, installing a new bathroom, adding closets, repairing the floor or ceiling are eligible.

"Heating systems, including stokers, oil burners, coal, gas, and electric systems, and plumbing and wiring, when a permanent part of the realty, are eligible.

"Equipment and machinery such as presses, drills, lathes, and other items used in an industrial or commercial establishment are not eligible for a loan unless the method or permanency of installation.

"Refrigerators, washing machines, ironers, stoves, dishwashers, and other household appliances and furnishings are not eligible.

"Bearing in mind that loans for eligible repairs, alterations, and improvements must be upon existing structures or in connection therewith, the following principles are applicable:

"(a) The repair, improvement, or addition must be physically attached to and a part of the structure or in connection therewith.

"(b) Improvements and additions which are removable or by their character necessarily temporary, are not eligible. Items which are of a nature generally considered as trade fixtures or equipment for commercial or industrial use are not eligible.

"(c) A loan for the improvement of a structure to make such structure adaptable to the installation of ineligible equipment and machinery is insurable but a loan for the purchase of such ineligible equipment and machinery is not insurable. For example, a loan to strengthen the foundation, walls, and the floors of a structure to hold safely heavy machinery that may be installed would be eligible but a loan for the purchase of the machinery would not be eligible.

"(d) An ineligible item does not become eligible merely because it is attached to the realty.

Class 1 (b) loans

"It is required that the proceeds of a class 1 (b) loan be used to alter, repair, improve, or convert a structure so as to further its use as a dwelling for two or more families. For example, a single family house may be converted into a two-family house; a dwelling for two or more families may be improved by painting or by installing a new heating system or a new plumbing system. It would be eligible to alter a commercial building so as to provide living accommodations for two or more families. However, it would not be permissible to use the proceeds of a class 1 (b) loan to benefit the business that may be conducted in a structure, such as installing a new store front, even though the building is used or will be used as a dwelling for two or more families.

"In order that the lending institution may determine (a) the eligibility of the proposed work and (b) the fact that the structure to be improved is used or will be used for two or more families the borrower should clearly indicate the required information in his Credit Application and in the statement of the improvements required by Regulation VIII, section 1 (d). The lending institution may rely upon such information in the absence of information to the contrary.

"'Family' as used in the Regulations is defined as one or more persons living, sleeping, cooking and eating on the same premises as occupants of one living unit. If there is any doubt as to whether a proposed project is eligible for class 1 financing, all the facts of the case may be submitted to Washington for an official ruling.

New structures—class 2 loans

Examples of new structures eligible for a class 2 loan which may be erected, improved or unimproved real property are barns, garages, service buildings, roadside stands, gasoline stations, tourist cabins, bunk houses for itinerant farm workers, and industrial or commercial buildings.

A class 2 loan may not include the cost of trade equipment used in the operation of the business that will occupy the structure. The loan may include the cost of heating or lighting systems and similar items which are eligible for class 1 improvement loans. For example, a loan not in excess of \$3,000 may be used to erect a commercial building, including a heating system, but no portion of the proceeds may be used to buy and equip the structure with trade fixtures.

The proceeds of a class 2 loan must be used to finance the building of a new structure that will be ready for use upon completion. It is not permissible to purchase an existing structure nor to apply the proceeds to complete a structure that is partially built.

More than one new structure may be built on a single piece of property but the principal amount of any one loan may not exceed the maximum of \$3,000 for one piece of property. For example, if a borrower wishes to erect a new barn to cost \$1,500 and three separate service buildings to cost \$500 each, a loan for the full \$3,000 would be eligible.

No portion of a class 2 loan may be used for demolishing existing structures to make room for a new structure. However, the erection of a new structure on an old foundation would be eligible."

Question 5. Has FHA approved such items as barbecue pits or fire-alarm systems as coming within the scope of section 2 insurance?

Answer. Yes. Counsel has ruled that barbecue pits are improvements in connection with existing structures and that fire-alarm systems installed in existing structures with wiring placed within the walls of the structures are an improvement upon the existing structures.

Question 6. FHA has approved landscaping as coming within the scope of this insurance program, has it not?

Answer. Yes. Counsel has ruled that landscaping is an improvement to the realty in connection with an existing structure.

Question 7. Section 2 gives the FHA Commissioner ample power to require that the insured financial institutions be qualified by experience and eligible for credit insurance, does it not?

Answer. Yes.

Question 8. Is it not true that FHA records any loan under section 2 for insurance coverage merely in reliance upon a certificate of the financial institution that the loan was made in accordance with regulations, without any further check into the merit of the particular loan, unless the loan would result in \$5,000 in loans outstanding to one borrower?

Answer. Yes; except that if the loan report obviously indicates a violation of the statute or regulations, the matter is taken up with the lending institution at this stage.

Question 9. If such a loan goes into default, it is true, however, is it not, that FHA has stated it will pay an insurance claim only on proper audit and finding that the loan was handled in accordance with regulations?

Answer. Yes.

Question 10. Has FHA made such an audit and finding before paying each insurance claim under section 2?

Answer. Before paying a claim the complete file, together with all documents, are audited by the Comptroller, and certified for payment only upon finding of compliance with governing regulations. There is no physical inspection of the work, its cost, or related conditions of the transaction in the field.

Question 11. How many and what amount of claims have been declined as a result of such audit?

Answer. Approximately 8,600 claims, for approximately \$2,714,000.

Question 12. In how many cases has FHA paid insurance claims under section 2 of title I?

Answer. For the 20-year period from June 1934 through February 1954 FHA has paid insurance claims on 482,178 cases under this section of title I.

Question 13. What is the total amount of such claims paid as compared to the total amount of insurance issued under section 2?

Answer. The total dollar amount of claims paid through February 28, 1954, amounted to \$151,924,118. In the same period, FHA insured loans totalling \$7,658,954,904.

Question 14. What total amount of insurance premiums have been collected under this section 2 program?

Answer. The FHA has collected insurance premiums of \$138,030,649 since July 1, 1939, and up to February 28, 1954. Prior to July 1, 1939, when Public Law 111 (76th Cong.) (54 Stat. 804) became effective, the FHA was not authorized to charge for this insurance.

Question 15. How many of the loans covered by section 2 insurance were or are so-called character loans and how many were or are secured by a mortgage on the premises being repaired with the loan proceeds?

Answer. The taking of security is left to the judgment of the insured institution, unless otherwise specified by the Commissioner, either by regulation or as a condition of prior approval. No record is maintained as to the number of such loans although the number may be considered substantial. It is most frequent with loans of larger amounts.

Question 16. In cases where the insurance under section 2 is against losses from purchases of obligations representing loans and advances of credit, how many of those purchases by the financial institution are made without recourse against the seller?

Answer. "With recourse" endorsements by dealers are not required by the title I regulations and are rarely required by insured financial institutions in title I cases. However, even a "without recourse" endorsement warrants that the endorser knows of no defect in the instrument. Of course, either the FHA or the bank may hold the dealer strictly accountable for the correctness of any representations which he makes in the dealer's completion certificate or otherwise. He also is held accountable if he knows of any false representations in any other documents which he presents in order to get the proceeds of the loan.

Question 17. Why does FHA administrative policy prescribe that it does not approve dealers for participation in the title I program, leaving this task to the financial institution?

Answer. We estimate that approximately 200,000 dealers, contractors, jobbers, and related enterprises in the home-improvement field are participating in the title I program. The task of investigating and putting a seal of approval on reliable dealers would be enormous and obviously costly. Assuming that the expense could be justified on the grounds of providing protection for homeowners, another point to be considered is that the Government, having put its seal of approval on the dealer or contractor, would necessarily have to resolve all disputes, however minor in nature, to determine whether approval of a dealer should be rescinded. Such approval would make it necessary to constantly keep under surveillance the conduct of the dealers' operations.

Question 18. Does FHA feel no responsibility to see that the home repair loan program is properly carried out not only by lending institutions which directly benefit from it, but also by dealers, salesmen, and borrowers?

Answer. Yes. The FHA recognizes a definite responsibility in this respect.

Question 19. Do not FHA's own administrative policies warn against unscrupulous dealers and unethical salesmen?

Answer. Yes. Our booklet FH-20, referred to before, the Dealer Guide (FH-30A) and letters to field offices and to lending institutions all stress this policy and outline specific steps that should be taken by the lenders and FHA field offices to control the operations of such individuals.

Question 20. Doesn't FHA regulation VIII (8) under title I require the insured institution to approve any dealer as reliable, financially responsible, and qualified to perform and service the work to be done?

Answer. Yes. If the proceeds of the loan are not delivered directly to the borrower without the intervention or participation of the dealer or other intermediary.

Question 21. Doesn't the same regulation require this dealer approval to be evidenced by an application in form approved by the FHA Commissioner signed by the dealer and the insured institution?

Answer. Yes. However, this dealer application did not become mandatory until the amendments were made to the regulations on October 28, 1953, effective December 1, 1953, as to all new dealers, and dealers from whom the lender had not purchased title I paper within the preceding 12 months.

Question 22. Will you supply for the record the FHA title I dealer application form approved by the FHA Commissioner and cleared with the Budget Bureau?

Answer. The form is attached.

FH-13

FHA TITLE I DEALER APPLICATION

Form approved
Budget Bureau No. 88To _____
(Insured Institution) (Date)

The following information is furnished for the purpose of inducing you to approve my (our) application as a dealer, pursuant to the provisions of Regulation VIII, Section 1(a) issued by the Federal Housing Commissioner under the authority contained in Title I of the National Housing Act.

BUSINESS NAME _____ Phone _____

Address _____
(Street) (City) (Zone) (State) For past _____ yearPrevious Address _____
(Street) (City) (State) For _____ year

TYPE OF BUSINESS _____ Date Established _____

(General contracting, lumber yard, heating, etc.)

OWNERSHIP: ☐ Sole Owner ☐ Partnership ☐ Corporation

PRINCIPALS: _____

(Name) (Title) (Home Address)

(Name) (Title) (Home Address)

(Name) (Title) (Home Address)

TRADE REFERENCES: (Name suppliers of major products financed under Title I FHA)

Name

Address

BANK OF DEPOSIT _____

HAVE DISCOUNTED PAPER WITH:

(Name) (Address) From _____ to _____
(year) (year)

(Name) (Address) From _____ to _____
(year) (year)

If paper to be financed represents the sale of a specialty product, indicate trade name and manufacturer

(Attach descriptive literature and price list)

Sales Area _____ No. of Branches _____

Address of Branches _____

Describe any guaranty given buyers _____

Financial statement as of _____ is attached.

(Date)

I (we) understand that I (we) are fully responsible for the Title I activity of all sales and that ethical and proper selling practices will be followed, and that immediate attention will be given to all complaints involving materials, workmanship or sales representations.

I (we) certify that the statements are true. I (we) understand this application shall remain the property of the financial institution to which it is submitted and, if requested, a copy may be furnished to the Federal Housing Administration.

Firm _____

Name _____

(Title)

WARNING: Any person who knowingly makes a false statement or a misrepresentation in this certificate is subject to a fine of not more than \$5,000 or to imprisonment for not more than 2 years, under provisions of the United States Criminal Code.

1885

[illegible]

_____ given copy of Dealer Guide
 _____ and all principals checked against precautionary measures list
 _____ names checked
 _____ : report dated _____ attached
 _____ was lenders checked
 _____ of business inspected by _____ Date _____

HHFA-FHA-Wash., D. C.

Question 23. In that form, doesn't each dealer certify that he is fully responsible for the title I activity of all sales personnel?

Answer. Yes.

Question 24. In that form doesn't the dealer also certify that ethical and proper selling practices will be followed?

Answer. Yes.

Question 25. Does not the dealer also certify in that form that immediate attention will be given to all complaints involving materials, workmanship, or sales representations?

Answer. Yes.

Question 26. Doesn't this dealer application form expressly state that the information given in it is furnished for the purpose of inducing the lending institution to approve the dealer under regulation VIII issued by FHA under title II?

Answer. Yes.

Question 27. Doesn't the dealer application form expressly warn that any person knowingly making a false statement or misrepresentation in the certificate is subject to a fine of not more than \$5,000 or imprisonment for not more than 2 years, or both, under the United States Criminal Code?

Answer. Yes. At the bottom of the form (FH-13) and below the signature of the dealer is a warning to this effect.

Question 28. It is noted that FHA's administrative policy under title I states that the insured institution may be called upon to furnish FHA the file containing the institution's approval of the dealer, where an insurance claim is shown to have resulted from default occasioned by fraud or faulty performance on the part of the dealer. In how many cases has this action been taken?

Answer. Beginning August 14, 1953, the Comptroller's Division was instructed to refer to the Title I Division all claim files containing evidence of fraud or serious dealer irregularity in order that the insured institution could be asked to forward its dealer file for review. Our records show that files have been requested in 38 specific cases. In addition dealer files have been examined by FHA financial representatives in their routine surveys of lending institutions, and many have been examined by the Washington FHA staff in considering the institution of precautionary measures. However, no specific figures are available as to the number of cases reviewed.

Question 29. What does FHA do when it receives such a file, assuming ethical and proper selling practices have not been followed or that attention has not been given by the dealer to complaints about materials, workmanship, or sales representation?

Answer. In the context referred to in the preceding question (question 28), the requirements of regulation VIII concerning the dealer file relate to the lender's approval of the dealer.

When the requested file is received, it is reviewed to determine that the lender has complied with these requirements: (1) That the necessary investigation has been made to determine that the dealer is reliable, financially responsible, qualified to perform satisfactorily the work to be financed, and to extend proper service to the customer; and (2) that the approval of the dealer by the lender is evidenced in writing, signed and dated.

Since the amendment to regulation VIII, effective December 1, 1953, it is required that the lender's approval be evidenced by an application signed and dated by the dealer and signed and dated by the lender on a form approved by the Commissioner.

When it is found that the lender has not satisfactorily investigated and approved the dealer, payment of claim may be denied or withheld until investigation establishes the necessary points to justify payment of claim.

Question 30. What action, if any, has FHA taken to see that an approved dealer honors his certification that he is fully responsible for the title I activity of all sales personnel?

Answer. The dealer's certification of his responsibility for the title I activities of sales personnel is accepted unless the FHA is put on notice otherwise. In such an instance, the case is developed and if the findings warrant, the FHA insists that necessary corrective action be taken to correct mistakes made and to prevent recurrence. Refusal of the dealer to fully cooperate would be considered grounds to request the lender to follow the precautions outlined in regulation VIII, section 2. If the note has come into the possession of the FHA, the matter may be referred to the Department of Justice for appropriate action.

Question 31. FHA's administrative policy under title I states that an insurance contract may be terminated with respect to any future business upon 5 days'

written notice from the FHA Commissioner where it appears to him that an insured institution is not using proper credit judgment, is not reasonably safeguarding its outstanding loans, or is not using proper care in selecting those from whom it purchases notes. In how many cases has FHA taken such action?

Answer. Since 1950 it has been necessary for the Administration to notify three lending institutions of the cancellation of their contracts of insurance because of seriously unsatisfactory or unsound operations. Generally, however, because of the drastic effect of cancellation of a contract it has been FHA policy to give lenders an opportunity to withdraw from the program rather than to proceed with cancellation. It is made clear in such situations that should the lender elect not to withdraw, cancellation would be necessary. In 22 instances since 1950, institutions have dropped out of the program on the foregoing basis. In many other instances FHA has notified lenders that cancellation was under consideration and would be put into effect unless corrective steps were taken. In most instances this notification has been effective in bringing about prompt improvement.

Question 32. FHA Regulation VIII under title I excuses the need of a dealer's approval certificate where loans are disbursed to the borrower "without the intervention or participation of the dealer or other intermediary in any manner in such disbursement." What does FHA consider would constitute such intervention or participation? Would it include a case where the dealer or his salesman orally encourages a borrower to apply for a direct loan from the lending institution?

Answer. This regulation refers only to intervention or participation in the disbursement of the loans, for example, where the loan is disbursed by check made payable to the borrower and the dealer jointly. It would not include a case where the dealer or salesman merely encourages a borrower to apply for a loan, but it would include any case where the disbursement check is made payable to the borrower and delivered to the dealer or where, at any stage in the transaction, the dealer or salesman obtains from the lender possession or control of the disbursement check or cash proceeds of the loan.

Question 33. Regulation VIII under title I also requires an insured institution to get a completion certificate signed by the borrower and a completion certificate signed by the dealer on forms approved by the FHA Commissioner before any loan proceeds are disbursed. Please file in the record a copy of the form of FHA title I completion certificate approved by the FHA Commissioner and the Budget Bureau.

Answer. The completion certificates of the borrower and the dealer are consolidated on one form, FH-2. Revised form mandatory January 1, 1954.

FD-4
(Revised October 1950)**FHA TITLE I COMPLETION CERTIFICATE**(REMITTANCE)
FHA Form No. 100-1

(WORK DONE OR MATERIALS DELIVERED)

To: _____ of _____
(Financial Institution) (Address)

In accordance with my (our) Credit Application dated _____, for a loan pursuant to the provisions of Title I of the National Housing Act:

CHECK HERE IF LOAN IS TO PAY FOR COST OF MATERIALS AND INSTALLATION.☐ I (We) hereby certify that all articles and materials have been furnished and installed and the work satisfactorily completed on premises indicated in my (our) Credit Application.**CHECK HERE IF LOAN COVERS ONLY THE PURCHASE OF MATERIALS.**☐ I (We) hereby acknowledge receipt in satisfactory condition of the materials described in my (our) Credit Application.

I (We) certify that I (we) have not been given or promised a cash payment or rebate nor has it been represented to me (us) that I (we) will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction. I (we) understand that the selection of the dealer and the acceptance of the materials used and the work performed is my (our) responsibility and that neither the FHA nor the financial institution guarantees the material or workmanship or inspects the work performed.

NOTICE
TO
BORROWER
DO NOT SIGN this certificate until you are
satisfied that the dealer has carried out his
obligations to you and that the work or the
materials have been satisfactorily completed
or delivered.Date _____
Borrower _____
Signature _____
Borrower _____
Signature _____
(ORAL INSPECTION REQUIRED)

For the purpose of inducing the payment of proceeds of this loan and the insurance thereof by the FHA the undersigned certifies and warrants that:

(1) The above work or materials constitute the entire consideration for which this loan is made. (2) A copy of the contract or sales agreement has been delivered to the borrower and the above financial institution. (3) This contract contains the sales agreement with the borrower. (4) The borrower has not been given or promised a cash payment or rebate nor has it been represented to the borrower that he will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction. (5) The work has been satisfactorily completed or materials delivered. (6) The above certificate was signed by the borrower after such completion or delivery. (7) The signatures herein and on the note are genuine. (8) All bills for labor materials have been or will be paid.

If any of the above representations prove incorrect, the undersigned agrees to promptly repurchase the note from the financial institution or from the FHA as the case may be.

DEALER**SIGN HERE**

(Name of dealer)

Date _____

By _____
(Signature)**WARNING:** Any person who knowingly makes a false statement or a misrepresentation in this certificate shall be subject to a fine of not more than \$5,000 or to imprisonment for not more than 2 years, or both, under provisions of the United States Criminal Code.

U. S. GOVERNMENT PRINTING OFFICE 16-50200-6

Question 34. In this certificate doesn't the dealer "certify and warrant," in order to induce FHA to insure the loan, that the work or materials furnished constitute the entire consideration for the loan?

Answer. Yes. Specifically the form states that "For the purpose of inducing the payment of proceeds of this loan and the insurance thereof by the FHA the undersigned (dealer) certifies and warrants that—

"1. The above work or materials constitute the entire consideration for which the loan is made."

Question 35. Isn't this statement in the certificate false if any part of the loan proceeds are used for any purposes other than to pay for the work or materials?

Answer. Yes.

Question 36. If any part of the loan proceeds are used for purposes other than paying for the work or materials furnished and the dealer certifies and warrants that the work and materials constitute the whole consideration for the insured loan, knowing such a statement to be false, isn't the dealer liable to criminal prosecution for violation of title 18, section 1010, of the United States Criminal Code?

Answer. Yes.

Question 37. Moreover, isn't anyone who uses any such false document knowing it to contain any false statement liable to criminal prosecution under section 1001 of the United States Criminal Code?

Answer. Experience has indicated that prosecution under section 1010 of the Criminal Code is more successful, but it is believed that prosecution under section 1001 of the Criminal Code might also be possible.

Question 38. Have any such cases come to the attention of FHA?

Answer. Yes.

Question 39. What action has FHA taken in such cases?

Answer. When the facts warrant, action is taken to place the names of such offenders on the list of dealers subject to the precautionary measures outlined in regulation VIII, section 2. To the extent possible under budgetary limitations, such cases have been investigated and reports of investigation have been submitted to the Justice Department for prosecution of the offenders. In some instances action has also been taken against the offenders in the nature of a civil suit pursuant to the provisions of the so-called fraudulent claims statute (31 U. S. C. 231).

Question 40. Doesn't the approved form of completion certificate also require the dealer to certify and warrant that the copy of the contract delivered to the borrower and the lending institution contains the whole agreement with the borrower and that the borrower has not been given or promised a cash payment or rebate to induce him to carry through the loan transaction?

Answer. Yes, warranties No. 3 and No. 4 of dealer's portion of the completion certificate.

Question 41. Have any cases come to FHA's attention where the dealer has signed such a certificate, but the borrower has received a cash payment or rebate?

Answer. To our knowledge there have been no such cases coming to the attention of the FHA where the new form of completion certificate has been used.

Question 42. What has FHA done about such cases?

Answer. See answer to No. 41.

Question 43. Doesn't the form of completion certificate also require the dealer to certify and warrant that the work has been satisfactorily completed or materials delivered?

Answer. Yes. Warranty No. 5.

Question 44. Isn't the dealer liable to criminal prosecution for knowingly making such a statement if it is false?

Answer. Yes, if the false statement is made for the purpose of obtaining proceeds of a title I loan and the other elements of the criminal offense are present.

Question 45. Have any such cases come to FHA's attention?

Answer. Yes.

Question 46. What action has FHA taken to proceed against the dealer for knowingly making a false statement?

Answer. The answer to this question is the same as indicated in the answer to question No. 39.

Question 47. Doesn't the completion certificate also require the dealer to agree to repurchase the note from the lending institution or from FHA, whichever has it, if any of the representations made by the dealer in the completion certificate prove to be incorrect?

Answer. Yes, since January 1, 1954, when the new form of certificate became mandatory.

Question 48. Has FHA ever had occasion to enforce such an agreement?

Answer. There have been only two cases brought to the attention of FHA in Washington. In one case the facts were discovered by the lender and, on request, the dealer immediately repurchased the loans in question. As a result of this instance, the FHA immediately placed limitations on the dealer's operation with respect to the origination of further business under title I. In the other case the dealer was unable or unwilling to honor his certification on the dealer's completion certificate and precautionary measures were instituted and the case will be considered by the Legal Division with a view of instituting criminal action.

Question 49. Isn't it true that the completion certificate relegates inspection to the dealer, wherever he is required to sign a completion certificate, since the borrower's portion of the completion certificate expressly states that "neither the FHA nor the financial institution guarantees the material or workmanship or inspects the work performed"?

Answer. The completion certificate places a joint responsibility upon both the dealer and the borrower to ascertain that the work has been satisfactorily completed in order to make proper certifications. Some financial institutions do inspect the work and many make "spot checks" of a portion of the jobs performed by each dealer. Lenders are encouraged by the FHA to make such inspections.

Question 50. Isn't it true that under FHA regulation VIII the dealer need sign no completion certificate if the insured loan is disbursed directly to the borrower without intervention or participation of the dealer or other intermediary in any manner in the disbursement?

Answer. Yes.

Question 51. In the borrower's portion of the approved form of completion certificate, doesn't the borrower certify that he hasn't been given or promised a cash payment or rebate as an inducement to carry out the transaction?

Answer. Yes—exact wording is "cash bonus or commission on future sales."

Question 52. Doesn't the completion certificate also expressly warn that knowingly making a false statement in the certificate is a criminal offense under the United States Criminal Code?

Answer. Yes.

Question 53. Have any cases come to FHA's attention where the borrower signing an approved form of completion certificate has received cash or a rebate as an inducement to carry out a section 2 loan transaction?

Answer. To our knowledge there have been no such cases where the borrower signed the new form of completion certificate and received cash or a rebate as an inducement to purchase.

Question 54. If so, what action has FHA taken to bring the borrower to account before the bar of justice?

Answer. See answer to No. 53.

Question 55. Is it not true that even the borrower need sign no completion certificate under regulation VIII if the loan is made directly to the borrower without intervention by a dealer or other intermediary?

Answer. Yes. (See also answer to next question.)

Question 56. Why doesn't FHA require a completion certificate from the borrower in all cases under section 2 loans?

Answer. The completion certificate was designed primarily for the protection of the borrower against fraudulent and unscrupulous dealers and salesmen. The borrower's representations with respect to the use of the loan proceeds are set forth in the credit application. In the direct-loan transaction it is contemplated that the borrower will be able to obtain the loan proceeds in advance of the performance of the work in order that he may have funds to buy materials and employ workmen of his own choosing. In many instances he does some or all of the work himself, using the loan proceeds to purchase materials only.

Question 57. In the case of all loans under section 2, doesn't regulation VI require the insured institution to obtain a credit application executed by the borrower on a form approved by the FHA Commissioner?

Answer. Yes.

Question 58. Why doesn't the credit application contain a certification by the borrower that he will use the loan proceeds for eligible purposes only?

Answer. The credit application, FH-1, contains a section headed "Proceeds of This Loan Will Be Used on Above Property as Described Below." There follows a space for borrower to fill in description of improvements and cost thereof. At the bottom of the form is a certification signed by the borrower that the above statements are true.

Question 59. Regulation VII preserves the eligibility of a note for FHA insurance even though, after the loan is made, the insured institution in good faith discovers a material misstatement or misuse of the proceeds of the loan by the borrower, dealer, or others? Doesn't this remove a large share of incentive for the insured institution to police the loan proceeds properly?

Answer. It has been the position of the FHA in the past that allowing insured institutions to rely on statements of borrowers in their credit application did not sufficiently increase the danger of misuse of proceeds to justify the expense of requiring actual inspections and checks in all cases. This question is now being carefully reviewed.

Question 60. The same regulation VII requires the insured to report promptly to the FHA Commissioner any such instances. How many were reported to FHA?

Answer. The regulation which specifically requires a report to the FHA is regulation VI, section 2. We have not maintained in the past a separate numerical report of complaints originating in this fashion. Such reports when received were handled in the same manner as reports received from other sources.

Question 61. Regulation VII under title I requires loan proceeds to be used only to finance alterations, repairs, and improvements begun in reliance on credit

facilities provided by title I. What measures does FHA take to enforce that part of the regulation?

Answer. Enforcement of this requirement is obtained in two ways. Financial representatives of the FHA making service calls and surveys of lending institutions make spot checks of the lender's loan files noting violations of this requirement as well as others and when claims are audited the application for credit to the lending institution must be submitted to FHA for examination. This and other papers in the lender's claim file indicate whether or not the application for credit preceded the making of improvements cited. If evidence is negative, payment of claim is refused.

Question 62. Regulation VII allows loan proceeds to be used to pay architects and engineers services connected with eligible improvements. What measures has FHA taken to prevent abuse of this use of loan proceeds?

Answer. This provision of the regulations was first adopted when the act authorized insurance of loans for as much as \$50,000. It has no practical importance at the present time, and since no complaints have been received indicating abuse of this provision, no preventive measures have been taken. However, further consideration will be given the matter.

Question 63. Regulation VII allows an insured institution acting in good faith, unless it has contrary information, to rely upon factual statements of the borrower in the credit application in determining eligibility of the improvements for insurance. Doesn't this remove incentive for the institution to check into actual eligibility of the improvements?

Answer. Our answer to this question is the same answer as our answer to No. 59.

Question 64. Regulation XI requires a warranty that the note qualifies for insurance on assignment to the Federal Government when a claim is filed. Isn't this inconsistent with regulation VII?

Answer. No. Regulation VII permits the insured to rely on the statements of the borrower in his credit application. This is a part of the insurance contract and, if the insured has so relied on the credit application and has been deceived, it is nevertheless entitled to payment of the insurance claim.

Question 65. Regulation X (10) requires loans to be reported to FHA within 31 days after the date of the note evidencing the loan or the date of its purchase. What later reports are made to FHA on such loans?

Answer. No further reports are required under normal operations and the loan may be paid in full without this office hearing of it again. However, we request annually by "Call report" a report of all loans outstanding as of March 31 each year and of the number of loans delinquent 90 days or more with the corresponding dollar amount. There also come to the FHA requests for extending the claim-filing period on delinquent accounts, and reports of new notes taken to refinance outstanding obligations. In addition, with continued default, a claim for loss is submitted with which lender's complete loan file is forwarded.

Question 66. Is it fair to say that FHA relies heavily on the insured financial institutions to see to it that the section 2 home repair insurance program is properly administered, instead of performing that task itself?

Answer. In answer to this question, the policy of FHA in the past has been as stated in the following quotation from the explanatory text of the regulations:

"The title I program provides an instrument by which financial institutions, the building and allied industries, and the Federal Government combine to assist borrowers to make eligible improvements to their property. The operation of the title I program is based on the good faith of all concerned—the good faith on the part of the individual borrower who applies for and receives a loan, the good faith of the dealer or contractor in carrying out the terms of his contract and rendering proper service to the customer, the good faith of financial institutions in acquiring and servicing title I loans, and the good faith of the Federal Housing Administration in carrying out its obligations and responsibilities. While certain regulatory measures are necessary to effectuate mutual objectives, a large responsibility is placed upon participating lending institutions for the exercise of sound discretion and prudent practices in carrying out the program."

The continuation of this policy is receiving our consideration.

Question 67. Obviously FHA has recognized in its administrative policy and regulations under title I some of the dangers of abuse of the home repair insurance program. What has it done to prevent the abuses it so recognized?

Answer. Attached is a copy of a memorandum dated April 16, 1954, setting forth the measures taken to eliminate the irregularities that have occurred in the title I repair and improvement program.

Question 68. Have FHA or HHFA made any requests for changes in this legislation to prevent abuses?

Answer. Please refer to letter of transmittal.

Question 69. What suggestions do you have for improving the legislation governing the home repair insurance program?

Answer. Please refer to letter of transmittal.

Question 70. Should the insured lending institution be required to assume a greater share of the loan risk?

Answer. Please refer to letter of transmittal.

Question 71. What prompted issuance of the warning letter to all qualified title I lending institutions on July 15, 1953, to consider carefully approval of dealers and cautioning against the hiring of itinerant salesmen?

Answer. The letter of July 15, 1953 (TI-99), addressed to all qualified title I lending institutions on the subject of approval of title I dealers, was prompted by the following developments:

1. As the volume of home modernization business increased during the first 6 months of 1953, many newly formed dealer companies entered the title I picture, some of them handling new and relatively untested products. One purpose of the letter was to emphasize the necessity for thorough investigation of such dealers and their products by the insured lenders prior to approving them for title I financing.

2. Another motivation for the letter was the fact that our surveys of lending operations disclosed considerable variance among qualified title I lending institutions in their dealer approval procedures. Although the title I regulations clearly set forth the responsibility of the insured lender to establish that the dealer was reliable, financially responsible, and qualified to perform satisfactory work, we felt that the letter would be helpful in pointing out specific methods for meeting this responsibility.

Question 72. The Dealer's Guide issued by FHA on page 9 says the FHA holds the dealer responsible for his salesmen's acts. What measures does FHA take to do so?

Answer. When irregular acts of salesmen are called to the attention of FHA, it has been the policy of the Administration to insist that the employer (the approved dealer) make such adjustments or take such corrective action as may be called for by the circumstances. If the dealer refuses to recognize his responsibility for the acts of his employees, precautionary measures are instituted.

Question 73. The Dealer's Guide also says on page 9 that FHA will employ appropriate measures to eliminate abuses by dealers. What measures has FHA adopted for that purpose? In how many cases has it used these measures?

Answer. Where dealer abuses have come to the attention of FHA, the provisions of regulation VIII, section 2, have been invoked and, when the facts warrant, the case has been referred to the Department of Justice for appropriate action. A total of 1,378 individuals and companies were made the subject of precautionary measures in the past 3 years.

[P. 25, question 67]

APRIL 16, 1954.

To: Mr. Norman P. Mason, Acting Commissioner.

From: Arthur J. Frentz.

Pursuant to our discussion yesterday, I am attaching a statement setting forth the measures that we have instituted to minimize, and to a great extent eliminate, dealer and salesmen abuse and irregularities that occurred in the past in the handling of title I loans by local banks, savings and loan associations, mortgage companies and finance companies.

ARTHUR J. FRENTZ,
Assistant Commissioner.

MEASURES TAKEN TO ELIMINATE IRREGULARITIES THAT HAVE OCCURRED IN THE HOME REPAIR AND IMPROVEMENT PROGRAM UNDER TITLE I OF THE NATIONAL HOUSING ACT

The insurance of repair and improvement loans under the provisions of title I of the National Housing Act is a mass volume operation. Last year approximately 2 million repair loans averaging \$500 each were reported to the Federal Housing Administration for insurance by approximately 8,000 active lending institutions and their branches.

By its very nature, the title I program has over the past 20 years been one of good faith. Good faith upon the part of the dealer or contractor performing

the work, the homeowner who contracts for the improvement, the lending institution that advances the credit and the FHA which insures the lending institution. In this chain of human relations involving currently an estimated two and one-half million or more individuals throughout the country, the task is to eliminate acts of misjudgment, irregularities, abuse, deceit, and fraud, and still have a type of operation that will serve properly and expeditiously the needs and requirements of the deserving home owner.

The problem of dealer and salesmen abuse has long been recognized and the administration has conducted a constant and unrelenting drive against irregularities of any nature.

Regulation VIII of the title I regulations is a product of this problem and from time to time has been amended and strengthened as conditions dictated. The general policy pertaining to dealer relationship expressed in the explanatory text preceding the regulations and in a series of form letters to the industry, further amplifies the goal desired by the regulations.

Since 1950 the yearly volume of title I loans has practically doubled from over \$690 million to over \$1½ billion. This rapid expansion taxed every facility in the process of selling, installing, financing, and insuring. As abuses and irregularities occurred, steps were taken to control the situation. The more recent measures starting in the middle of 1953 are as follows:

1. *Title I Advisory Committee to the Commissioner.*—This committee was formed to meet with the FHA to advise on current operating problems with particular emphasis on dealer operations. The first meeting of this group consisting of seven of the country's leading consumer credit bankers was on June 22, 1953.

2. Letter to all qualified title I lending institutions (TI-99) dated July 15, 1953, reviewed the standards for investigating and approving dealers and repeated the warning that it is the lender's responsibility to do business only with reliable dealers and in the absence of the proper dealer file showing their approval of such dealer, the loans purchased will not be considered as meeting the requirements of the insurance contract. (Exhibit A.)

3. Letter to directors of all field offices directed the FHA field staff to make effective the policy set forth in the above letter to lending institutions (TIF-101 dated July 16, 1953). (Exhibit B.)

4. Amendments to the regulations.—On July 31, 1953, the advisory committee was presented with certain proposals to amend the regulations. We stated, "The problem is one that no longer can be answered by an attempt to seek voluntary cooperation or by correcting individual situations when they arise. Instead, it resolves itself to instituting regulations that will govern the operation of all participants equally." Following a second meeting with the committee and discussions with representatives of industry, the regulations were amended on October 28, 1953, as follows and announced in a letter of instructions to all lending institutions. (Exhibit C.)

(a) Dealer application: This is a new form required of all new dealers showing their names, addresses, principals, references, past history, sales methods, and financial history. It is required that the dealer certify that he will be fully responsible for the title I activity of all sales personnel, that ethical and proper selling practices will be followed, and that immediate attention will be given to all complaints. (Exhibit D.)

(b) Lending institution's approval: In approving the dealer, the lending institution must make an affirmative statement that the dealer has been investigated and is considered reliable, financially responsible and qualified to perform satisfactorily the work to be financed and to extend proper service to the customer. (Exhibit D—Reverse.)

(c) Dealer record: By regulation it is now required that the lending institution maintain a record of the loan experience with each dealer. Such a record will reflect, at least, the volume of loans purchased, claims filed and borrower complaints or irregularities.

(d) A revised and strengthened completion certificate:

(1) The dealer certificate was amended to outlaw cash payments or bonuses of any kind as an inducement for the purchase and require that all bills for labor and materials have been or will be paid. A total of eight separate warranties are set forth and the dealer must certify that if any of the representations prove incorrect, he will promptly repurchase the note. This assumption of liability in event of abuse or irregularity is extremely effective.

(2) The borrower's certificate was likewise amended to include a certification that no cash payment or rebate or cash bonus was received as an inducement for the purchase. (Exhibit E.)

(e) Advance notice to the borrower: This is a new requirement and is for the purpose of bringing about a closer relationship between the insured institution and the homeowner. This advance notice to the borrower 6 days prior to disbursement of the proceeds of the note to the dealer provides a cooling-off period, during which time the homeowner has an opportunity to register with the lender any disagreement with the proposed transaction. (Exhibit F.)

5. Letter to the field office directors over the signature of the Commissioner asking that prompt corrective action be taken when any type of irregularities are brought to their attention. (Exhibit G.)

6. Letter to all qualified title I lending institutions calling their attention to the requirement of the regulation that any irregularity must be reported immediately to the Commissioner. (Exhibit H.)

7. Letter to all field office directors asking that they cooperate fully with the local better business bureaus and similar organizations to further stamp out unethical practices. (Exhibit I.)

8. In addition to the above external operating measures, the following internal steps were taken which represented the maximum increase of facilities possible within budgetary limitations for the fiscal year beginning July 1, 1953.

(a) The staff of the Investigation Section of the Legal Division was increased from 5 to 8 to investigate alleged irregularities and prepare such cases for submission to the Department of Justice for legal action.

(b) The number of financial representatives was increased from 3 to 5 and were instructed to concentrate their activity on strengthening the dealer policy of local lending institutions.

(c) The institution of restrictive measures against dealers abusing the title I financing privilege was accelerated and was applied to 493 companies and individuals in 1953. In the past 3 years the total numbered 1,378. The institution of restrictive measures has the practical effect of causing lending institutions to refrain from further financing of such operations.

(d) Finally, the entire activity was knitted into an effective program through the medium of daily correspondence, personal contact with individual institutions in the field as well as those visiting Washington, and meetings with trade associations and with title I lending groups.

EXHIBIT A

FEDERAL HOUSING ADMINISTRATION

Washington 25, D. C.

July 15, 1953
(TI-99)

To: All qualified Title I lending institutions.
Subject: Approval of Title I dealers (Regulation VIII).

In view of the increasing activity of dealers in the origination of business being reported for insurance under Title I, it is appropriate that insured institutions review their standards for investigating and approving dealers.

Regulation VIII, Section 1 (a), provides that the insured institution's dealer file must contain its signed and dated approval and be supported by information that the dealer is: (1) Reliable; (2) financially responsible; (3) qualified to perform satisfactorily the work to be financed; and (4) equipped to extend proper service to the customer. The absence of such a file containing the insured institution's signed and dated approval of the dealer is a violation of this regulation and loans purchased from such dealers do not meet the requirements of the insurance contract. Where claim for reimbursement is shown to have resulted from default occasioned by fraud or faulty performance on the part of the dealer, the insured may be called upon to furnish the Commissioner with the file containing its approval of the dealer.

Investigation and approval of dealers should not be considered in a cursory manner. The role of the dealer is one of great importance as he or his salesmen, in effect, represent the insured institution when discussing the terms of financing with the homeowner and when obtaining the execution of the loan documents. Thus the dealer should not be a stranger to the insured but the latter should have full knowledge of the principals, the salesmen, and their method of operation.

The requirements of Regulation VIII constitute the basic pattern for dealer approval and investigation will develop sufficient information to

enable the insured institution to make a sound and proper decision. It is contrary to the policy of the Federal Housing Commissioner to permit lending institutions to use the insurance coverage provided by the National Housing Act for the purpose of testing the dependability of dealers with whom they have had no previous experience and with respect to whom they do not have adequate and reliable information.

In order to establish compliance with Regulation VIII, the insured institution must ascertain that:

1. The dealer is reliable

If the insured institution has no knowledge of the reliability of the dealer, a thorough check should be made to assure that the dealer is honest, trustworthy, and can be relied upon to fulfill the contracts he enters into with his customers. Such information may include the experience of the local FHA office, experience of other lending institutions, the Better Business Bureaus or similar agencies, and, should the situation demand, the experience of previous customers.

2. The dealer is financially responsible

Information in possession of the insured institution should clearly indicate that the dealer has a reputation of paying his bills promptly and has the financial strength to operate his business properly. It is a sound practice to obtain from the dealer his current balance sheet and profit-and-loss statement which in turn may be supported by a commercial credit report. Periodically, this financial information should be brought current and the dealer's financial soundness reviewed in the light of current operations.

3. The dealer is qualified to perform satisfactorily the work to be financed and is equipped to extend proper service to the customer

The requirements of the specific case will dictate the information necessary to ascertain that the dealer is experienced in the business he is conducting and has the labor and equipment to perform the work and extend proper service to the customer. In the absence of personal knowledge of the dealer, it is recommended that a representative of the institution call upon the dealer at his place of business and prepare a report clearly showing that the dealer possesses the required qualifications.

While the foregoing constitute a guide that may be followed in approving dealers, it is equally important that the following aspects of a dealer operation be considered:

1. *Salesmen.*—Dealers should be cautioned as to hiring itinerant salesmen, those whose identity cannot be verified, and individuals whose Title I activities are subject to the provisions of Regulation VIII, Section 2. It is recommended that frequent meetings be held with salesmen and supervisory personnel to make certain that they are properly instructed as to the insured's credit and general lending policies, as well as the spirit and letter of the Title I Regulations.

2. *Improvements to be financed.*—The dealer file should contain information showing the type of work done, the kind of materials used, the manner of installation and the price range. This may be supplemented by descriptive literature used by the dealer in the promotion of his business and such other informational material as may be available. Title I loans should not be used to finance products of doubtful merit or those being sold at an inflated sales price.

3. *The dealer's record.*—As a basis for determining whether continued dealer approval is warranted, sound lending requires establishing a control record. It is well to know the number and dollar amount of loans purchased and rejected and to know the loans that have terminated in claims and the reason therefor. There should also be a record of service complaints and irregularities and their ultimate disposition.

It is essential that the officers and employees of the insured institution who are responsible for handling Title I loans thoroughly understand and carry out the provisions of Regulation VIII in purchasing dealer-originated loans. We urge that operating personnel not only be guided by the contents of this letter but also study the material appearing in the administrative text of the Title I Regulations booklet appearing under the heading "Dealer Relationship."

Very truly yours,

ARTHUR J. FRENTZ,
Assistant Commissioner.

EXHIBIT B

FEDERAL HOUSING ADMINISTRATION

Washington 25, D. C.

July 16, 1953
(TIF-101)

To: Directors of all field offices.

Subject: Approval of Title I Dealers (Regulation VIII).

The attached letter (TI-99) to all title I qualified lending institutions emphasizes the requirements of regulation VIII as it pertains to approval of dealers operating under the title I program.

Particular attention is directed to the fact that loans purchased from dealers who have not been properly approved by the lending institution do not meet the requirements of the above regulation.

If a lending institution in the opinion of the Director does not observe acceptable standards in approving dealers and continues to disregard the Director's advice after attention is called to the shortcoming, a recommendation should be submitted to this office as to continuation of the institution's contract of insurance.

It is the objective of the Administration to eliminate irregular dealers and salesmen from the title I program. All directors and members of their staffs are asked to work with the lending institutions in their jurisdictions in making effective the policy set forth in this letter

Very truly yours,

ARTHUR J. FREEMAN,
Assistant Commissioner.

EXHIBIT C

FEDERAL HOUSING ADMINISTRATION

Washington 25, D. C.

October 28, 1953
(TI-101)

To: All qualified title I lending institutions.

Subject: Amendments to part I of the title I regulations; amendment to regulation III, section 3; amendment to regulation VIII, sections 1 (a), 1 (b), 1 (e), and section 3; amendment to regulation XI, section 2, section 3, and section 5 (d) (3).

The home-improvement program under title I of the National Housing Act was instituted with the primary objective of assisting homeowners in maintaining better housing standards. Full attainment of this objective has been made difficult because of the activities of a relatively few unscrupulous dealers and salesmen who have taken advantage of the basic good-faith concept on which the program is founded to victimize property owners through unethical business practices.

The Administration has vigorously opposed such practices and has adopted a number of procedural steps designed to eliminate the unethical operator from the home-improvement field. With the tremendous increase in title I volume in recent years, however, reports of irregular dealer activities have continued to come to our attention.

In order to provide the homeowner with further protection against such abuses, Commissioner Guy T. O. Hollyday has amended today part I of the title I regulations. A copy of the new amendments is attached and there follows a summary of the changes with pertinent comment.

Dealer application, form FH-13—Regulation VIII, section 1 (a)

Effective December 1, 1953, it will be required that the approval of the dealer by the insured be evidenced by an application signed and dated by the dealer on a form approved by the Commissioner. It is further required that the signed and dated approval by the insured be on a form approved by the Commissioner. These required forms have been consolidated into the attached form FH-13 supplied by this Administration. Approval to reproduce these two forms, jointly or separately, is hereby given provided there is no omission of any of the contents.

It is not required that the prescribed application be obtained from dealers previously approved by the insured and to whom the insured has disbursed loans during the 12-month period prior to December 1, 1953.

The items of information on the dealer application form are considered to be minimum and it is urged that lenders obtain such additional data as may be warranted under the circumstances of the individual case. It frequently may be desirable to have a dealer furnish the names and addresses of all sales personnel presently employed in order that the antecedents and other background information on these individuals may be obtained.

The amendment now makes it mandatory that the insured maintain a record of its experience with the loans originated henceforth by all of its approved dealers. Such record should reflect at least the volume of loans purchased, claims filed, and borrower complaints received or irregularities discovered.

Lending institutions are urged to review the subject of dealer approval discussed in the explanatory text in the printed regulations booklet and also review our letter of July 15, 1953 (TI-99), on the same subject.

Failure on the part of the insured institution to have in its file the signed and dated application of the dealer together with supporting information and the insured's signed and dated approval shall be considered a violation of the regulations and loans purchased from such dealer will be considered as failing to meet the requirements of the insurance contract.

Borrower-dealer completion certificate—Regulation VIII, section 1 (b)

This amendment stipulates that loans originated under the inducement of a bonus promise or a cash payment will not be accepted for insurance if the insured institution has knowledge of such practices. The completion certificate, form FH-2 (copy attached), has been revised so that both the borrower and the dealer must certify that no bonus or cash payment was given or promised in connection with the transaction. The insured may rely upon the statements of the borrower and the dealer in their completion certificate in the absence of information to the contrary.

The completion certificate has been further revised so that the borrower makes an affirmative statement that he understands that the selection of the dealer and acceptance of the materials and workmanship are his responsibility rather than that of the lending institution or the Federal Housing Administration. In the dealer's portion of the certificate there has been added a statement that all bills for labor and material have been or will be paid and further, an agreement by the dealer to repurchase the note if any of his representations made on the certificate are found to be incorrect.

Existing stocks of completion certificates may be used until exhausted but in no event after January 1, 1954. In accepting the old completion certificate forms lending institutions should be alert for any evidence of bonus sales practices or promises of cash payment. It is well to caution all dealers against the use of such sales methods in connection with title I transactions.

The new form of completion certificate may be reproduced provided the minimum size is 8 by 7 inches and there is no deviation as to content or format.

Advance notice to the borrower—Regulation VIII, section 1 (c)

This subsection is new and requires the insured institution to deliver a notice to the borrower of the approval of his credit application. This notice must be delivered to the borrower at least 6 calendar days prior to the disbursing the note proceeds to the dealer. For example, if the advance notice is mailed on the 1st day of the month, disbursement shall not be made until the 7th day of the month or thereafter.

It is not required that the borrower acknowledge receipt of the notice. However, the insured must have a record of having mailed or delivered such notice. An acceptable record of delivery would be a dated carbon copy of the notice or a dated entry in the borrower's loan file.

The purpose of the advance notice is to bring about a closer relationship between the insured institution and the homeowner and to make certain that the homeowner understands the basic terms of the transaction.

This form will not be supplied by the Administration as it is believed that institutions should issue the notice on their own stationery. As the Regulations require such notice on a form approved by the Commissioner, this letter shall be

considered as official approval of any notice that contains in its text the following minimum data :

[Letterhead of institution]

ADVANCE NOTICE TO APPLICANT FOR FHA TITLE I LOAN

----- Date -----
(Borrower's name)

(Address)
We have approved your FHA application for credit in the net amount of \$-----, for ----- months under title I of the National Housing Act as presented to us by -----

(Dealer)
Please notify us immediately if you have any questions regarding the transaction.

(Name of institution)
Lenders are encouraged to add this notice any additional material that may be helpful to the homeowner in fully understanding the transaction. Notices already in use by some lenders indicate the gross amount of the loan, the amount of the monthly payment and the finance charge. Frequently, a warning is expressed against bonus selling and the borrower is cautioned that the completion certificate should not be signed until he is satisfied as to the completion of the job.

Direct loans—Regulation VIII, section 3

This section stipulates that the provisions of section 1 and section 2 shall not apply to those loans where the proceeds are delivered directly to the borrower. However, if the dealer participates in the disbursement in any manner, such as having the proceeds check (although made payable to the borrower) delivered to the dealer by the insured institution, or if the dealer accompanies the borrower to the institution on the occasion of disbursement for the obvious purpose of receiving the proceeds, then the provisions of section 1 and section 2 must be followed. Insured institutions should be on the alert to see that the protective measures prescribed for use in connection with dealer originated loans are not avoided by any subterfuge.

Claim after default—Regulation XI, section 2

There has been some question as to how soon a claim for reimbursement for loss may be submitted to the Administration in view of the parenthetical clause in regulation XI, section 2 indicating that default was the earliest installment for which full payment has not been received. The amended regulation removes this restriction so that claim may be made any time after default in any provision of the note provided demand has been made on the debtor for the full unpaid balance.

Maximum claim period—Regulation XI, section 3

The word "section" is substituted for the word "regulation" to avoid any misunderstanding as to the maximum claim period prescribed by this section.

Claim amount, attorney fees—Regulation XI, section 5 (d) (3)

This amendment now provides additional reimbursement to the insured for obtaining judgment in instances where the action is contested. The insured may claim \$50 plus 5 percent of the balance due on the note if judgment is recovered in a contested action. This is in addition to the \$25 (or 15 percent of the balance due) permitted by section 5 (d) (2).

Eligible notes, payments—Regulation III, section 3

The amendment to regulation III, section 3, now permits an adjustment of either the first installment or the final installment provided such payment is not less than one-half or more than one and one-half times the amount of regular installments.

A supply of the new forms (dealer application, form FH-13 and completion certificate, form FH-2) are now being shipped to the FHA field offices and lending institutions may obtain a working quantity within the next few days. Lenders are requested to cooperate by deferring their requisitions for a bulk shipment until after the initial distribution has been effected.

mentations and sales irregularities have no part in the title I program. that the steps now being taken, coupled with the united effort of institutions and responsible dealers throughout the country will found operation for the benefit of the entire community.

truly yours,

ARTHUR J. FRENTZ,
Assistant Commissioner.

TO PART I OF THE REGULATIONS OF THE FEDERAL HOUSING COMMISSIONER GOVERNING PROPERTY IMPROVEMENT LOANS EFFECTIVE JULY 1, 1947

the Regulations of the Federal Housing Commissioner Governing Improvement Loans, effective July 1, 1947; as amended, is further hereinafter provided.

id sentence of regulation III, section 3, is hereby amended to read as

t installment or the final installment may be more or less than the lments provided that it is not less than one-half or more than one and es the amount of a regular installment."

on VIII is hereby amended, effective December 1, 1953, to read as

rsement.—Before disbursing the proceeds of a loan, the insured shall : *iler approval.*—Have approved the dealer after such investigation as considers necessary to establish to its satisfaction that the dealer is ancially responsible, and qualified to perform satisfactorily the work ed and to extend proper service to the customer. This approval shall d by an application signed and dated by the dealer and signed and e insured on forms approved by the Commissioner. The dealer appli-approval by the insured, together with supporting information and a e insured's experience with the loans originated by such dealer shall insured's file. New dealer applications and dealer approvals need not l in connection with dealers who have been approved and to whom the , disbursed loans during the 12-month period prior to December 1, the purpose of this regulation the term 'dealer' means the one who e dealer's completion certificate.

Completion certificates.—Obtain a completion certificate signed by the and a completion certificate signed by the dealer on forms approved by mmissioner. An insured shall not disburse the proceeds of a loan, if, as cement for the consummation of the transaction, the borrower has been r or promised a cash payment or rebate or it has been represented to the er that he will receive a cash bonus or commissions on future sales. In e of information to the contrary, the insured may rely upon the dealer's ent in his completion certificate as to such bonus selling. If there are 2 lligible borrowers involved in a transaction, only 1 signature is required over's certificate.

horization to pay loan proceeds.—No change.

criptions of improvements.—No change.

ance notice to applicant.—Mail to the borrower or personally deliver ower written notice of approval of the application for credit on a ived by the Commissioner. Such notice shall be directed to the bor- to disbursement of the loan and in no event less than 6 calendar days h disbursement. A record of such notice showing the date of mailing to the borrower shall be in the loan file.

utionary measures.—No change.

tions.—The provisions of sections 1 and 2 of this regulation shall not ans made directly to the borrower or borrowers where the proceeds ed directly to such borrower or borrowers without the intervention or on of the dealer or other intermediary in any manner in such nt."

on XI, section 2, is amended to read as follows:

after default.—Claim may be made after default provided demand ade upon the debtor for the full unpaid balance of the note."

on XI, section 3, is amended to read as follows:

num claim period.—For the purpose of determining when a claim must ler the provisions of this section, any payments received on an account,

including payments on a judgment predicated thereon, shall be applied to the earliest unpaid installment, and in the case of:

- "(a) *Yearly installment notes*.—No change.
- "(b) *All other installment notes*.—No change.
- "(c) *Military service cases*.—No change.

Regulation XI, subsection 5 (d), is hereby amended effective as to claims certified for payment on or after December 1, 1953, to read as follows:

"(d) Attorney's fees actually paid not exceeding:

- "(1) No change.
- "(2) No change.
- "(3) Fifty dollars plus 5 percent of the balance due on the note as an additional fee where the action is contested and judgment is obtained."

Issued at Washington, D. C., October 28, 1953

GUY T. O. HOLLYDAY,
Federal Housing Commissioner.

HOUSING ACT OF 1954

1901

(EXHIBIT D)

FHA TITLE I DEALER APPLICATION

Form approved
Budget Bureau No. 62-2844

(Insured Institution)

(Date)

The following information is furnished for the purpose of inducing you to approve my (our) application as a dealer, pursuant to the provisions of Regulation VIII, Section 1(a) issued by the Federal Housing Administration under the authority contained in Title I of the National Housing Act.

NAME _____ Phone _____
(Street) (City) (Zone) (State) For past _____ years

Address _____ For _____ years
(Street) (City) (State)

BUSINESS _____ Date Established _____
(General contracting, lumber yard, heating, etc.)

☐ Sole Owner ☐ Partnership ☐ Corporation

(Name) (Title) (Home Address)

(Name) (Title) (Home Address)

(Name) (Title) (Home Address)

SUPPLIERS: (Name suppliers of major products financed under Title I FHA)

Name Address

DEPOSIT _____

COUNTED PAPER WITH: _____

(Name) (Address) From (year) to (year)

(Name) (Address) From (year) to (year)

to be financed represents the sale of a specialty product, indicate trade name and manufacturer

(Attach descriptive literature and price list)

No. of Branches _____

of Branches _____

any guaranty given buyers _____

1 statement as of _____ is attached.
(Date)

we understand that I (we) are fully responsible for the Title I activity of all sales personnel, and proper selling practices will be followed, and that immediate attention will be given to complaints involving materials, workmanship or sales representations.

we certify that the statements are true. I (we) understand this application shall remain the property of the financial institution to which it is submitted and, if requested, a copy may be furnished to the Federal Housing Administration.

Firm _____

Name _____

(Title)

Any person who knowingly makes a false statement or a misrepresentation in this certificate shall be subject to a fine of not more than \$5,000 or to imprisonment for not more than 2 years, or both, under provisions of the United States Criminal Code.

1902

HOUSING ACT OF 1954

THIS SPACE FOR USE OF DEALER IN SUPPLYING ADDITIONAL INFORMATION

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There is no handwriting or other markings on the paper.

THIS SPACE FOR USE OF INSURED INSTITUTION

- ☐ Dealer given copy of Dealer Guide
☐ Firm and all principals checked against precautionary measures list
☐ References checked
☐ Credit report dated _____ attached
☐ Previous lenders checked
☐ Place of business inspected by _____ Date _____

Remarks _____

The dealer whose application appears on the reverse hereof has been approved after such investigation as we consider necessary to establish that the dealer is reliable, financially responsible and qualified to perform satisfactorily the work to be financed and to extend proper service to the customer.

Dealer Approved _____ 195__ By: _____

HOUSING ACT OF 1954

1903

FHA-4
Revised October 1953)

FHA TITLE I COMPLETION CERTIFICATE

Form approved.
Budget Bureau No. 43-2322.1.

(WORK DONE OR MATERIALS DELIVERED)

I am _____ of _____
(Financial institution) (Address)

In accordance with my (our) Credit Application dated _____, for a loan pursuant to the provisions of Title I of the National Housing Act:

SEE HERE IF LOAN IS TO PAY FOR COST OF MATERIALS AND INSTALLATION.

I (We) hereby certify that all articles and materials have been furnished and installed and the work satisfactorily completed on premises indicated in my (our) Credit Application.

SEE HERE IF LOAN COVERS ONLY THE PURCHASE OF MATERIALS.

I (We) hereby acknowledge receipt in satisfactory condition of the materials described in my (our) Credit Application.

I (We) certify that I (we) have not been given or promised a cash payment or rebate nor has it been represented to me (us) that I (we) will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction. I (we) understand that the selection of the dealer and the acceptance of the materials used and the work performed is (our) responsibility and that neither the FHA nor the financial institution guarantees the material or workmanship or the work performed.

NOTICE
TO
BORROWER
DO NOT SIGN this certificate until you are satisfied that the dealer has carried out his obligations to you and that the work or the materials have been satisfactorily completed or delivered.

Date _____

Borrower

Signature _____

(READ BEFORE SIGNING)

Borrower

Signature _____

(READ BEFORE SIGNING)

For the purpose of inducing the payment of proceeds of this loan and the insurance thereof by the FHA the undersigned does and warrants that:

(1) The above work or materials constitute the entire consideration for which this loan is made. (2) A copy of the contract and agreement has been delivered to the borrower and the above financial institution. (3) This contract contains the whole agreement with the borrower. (4) The borrower has not been given or promised a cash payment or rebate nor has it been represented to the borrower that he will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction. (5) The work has been satisfactorily completed or materials delivered. (6) The above certificate was signed by borrower after such completion or delivery. (7) The signatures hereon and on the note are genuine. (8) All bills for labor or materials have been or will be paid.

If any of the above representations prove incorrect, the undersigned agrees to promptly repurchase the note from the financial institution or from the FHA as the case may be.

DEALER
SIGN HERE

(Name of dealer)

By _____

(Signature)

WARNING: Any person who knowingly makes a false statement or a misrepresentation in this certificate shall be subject to a fine not more than \$5,000 or to imprisonment for not more than 2 years, or both, under provisions of the United States Criminal Code.

U. S. GOVERNMENT PRINTING OFFICE 15-51290-6

EXHIBIT F

(Letterhead of institution)

ADVANCE NOTICE TO APPLICANT FOR FHA TITLE I LOAN_____
(Borrower's name)

Date _____

(Address)

We have approved your FHA application for credit in the net amount of _____, for _____ months under title I of the National Housing Act as presented to us by _____

(Dealer)

Please notify us immediately if you have any questions regarding the transaction.

(Name of institution)**EXHIBIT G**

DECEMBER 22, 1953.

(TIF-103)

o: Directors of all field offices.

subject: The director's responsibility in the title I property improvement program.

I recently signed certain amendments to the title I regulations, which I hope will be effective in eliminating abuses that have subjected the program to criticism in the past. To assure full attainment of our objective, it is necessary

that each director maintain close watch over title I operations in his area and that prompt corrective action be taken when any type of irregularities occur.

Very truly yours,

GUY T. O. HOLLYDAY, *Commissioner.*

EXHIBIT H

DECEMBER 28, 1953.

(TI-102)

To: All qualified title I lending institutions.

Subject: (1) Supplement to master list of dealers, (2) reporting dealer irregularity.

Attached is a supplemental list of trade styles, dealers, and salesmen whose title I activities were made subject to the provisions of regulation VIII, section 2, during the period from February 1, 1953, through November 30, 1953. This list should be incorporated with the master list dated January 31, 1953, forwarded you with our letter TI-96, dated March 2, 1953.

In furthering our mutual effort to control those firms or individuals in the title I program who are unreliable or who have conducted their operations in an irregular manner, we request the cooperation of all participating institutions. Your attention is called to the requirement of regulation VI, section 1 of the governing title I regulations wherein it is stated:

"If, after the loan is made, an insured who acted in good faith discovers as material misstatements or misuse of the proceeds of the loan by the borrower, dealer, or others, the eligibility of the note for insurance will not be affected. However, the insured shall promptly report such discovery to the Commissioner.

There have been a few cases coming to our attention where there have been material misstatements, misuse of the proceeds of the loan, or other irregularities in connection with the transaction and the insured failed to report such facts to the administration.

Transactions of this type, particularly if attributable to the dealer or salesman, shall be immediately reported in writing to your local FHA Director.

In submitting such cases the institution's report should include:

- (a) Name and address of the borrower, date of the note and face amount.
- (b) Name and address of the dealer and salesman involved.
- (c) Date of the "loan report" submitted to FHA.
- (d) Full details as to the irregularity, citing specific dates, places, and names supported by a report of your investigation.

Very truly yours,

ARTHUR J. FRENTZ,
Assistant Commissioner.

EXHIBIT I

FEDERAL HOUSING ADMINISTRATION,

Washington, D. C., January 13, 1954.

(TIF-104)

To: Directors of all field offices.

Subject: Better business bureaus.

As a further step in controlling the activity of unethical dealers and salesmen who may endeavor to operate in the title I program, we ask that each director establish a working relationship with the local better business bureaus and similar organizations operating in his jurisdiction. A list of the cities in which better business bureaus are located is attached.

In keeping with the directive of the Commissioner in his letter of December 22, 1953 (TIF-103), we believe that close cooperation with your local better business bureaus will serve as one means of maintaining a close watch over title I operations in your area. Experience has shown that homeowner complaints received by the local better business bureau may indicate a dealer operating warranting prompt action on the part of the local lending institution and by your office.

It is particularly important that the local bureau fully understand the insurance operation of this Administration, as well as the lending response of the institution. Review the pertinent regulations, explaining the measures the financial institution may take in giving the homeowner an advance notice

ould you have any questions concerning this matter or should any unusual
 pments occur in your relationship with the local bureau, refer the matter
 Assistant Commissioner for title I with a copy to your regional director.
 Very truly yours,

WALTER L. GREENE,
Deputy Commissioner.

ROSTER, ASSOCIATION OF BETTER BUSINESS BUREAUS, INC.

, Ohio	Cleveland, Ohio	Houston, Tex.
uerque, N. Mex.	Columbus, Ohio	Huntington, W. Va.
llo, Tex.	Corpus Christi, Tex.	Indianapolis, Ind.
a, Ga.	Dallas, Tex.	Kansas City, Mo.
i, Tex.	Dayton, Ohio	Lima, Ohio.
sfield, Calif.	Denver, Colo.	Lincoln, Nebr.
iore, Md.	Des Moines, Iowa	Long Beach, Calif.
Rouge, La.	Detroit, Mich.	Los Angeles, Calif.
amton, N. Y.	Elkhart, Ind.	Louisville, Ky.
i, Mass.	Fort Wayne, Ind.	Marion, Ohio
port, Conn.	Fort Worth, Tex.	Memphis, Tenn.
o, N. Y.	Fresno, Calif.	Miami Beach, Fla.
oston, W. Va.	Grand Rapids, Mich.	Milwaukee, Wis.
ette, N. C.	Hamilton, Ohio	Minneapolis, Minn.
so, Ill.	Hartford, Conn.	New Orleans, La.
nati, Ohio	Honolulu, T. H.	New York, N. Y.

he following list of dealers subject to the provisions of regulation
 , section 2, title I, were ordered inserted in the record ; see p. 1396 :)

1906

HOUSING ACT OF 1954

**LIST OF DEALERS
SUBJECT TO THE PROVISIONS OF
REGULATION VIII, SECTION 2**

(REVISED JANUARY 31, 1953)

1953

HOUSING ACT OF 1954

1907

ADDRESS

DATE ISSUED

A

TRUCTION CO.	Evansville, Ind.	9-28-51
ELECTRIC HOUSE, INC.	Lynbrook, N. Y.	3-31-49
RATING COMPANY	St. Louis, Mo.	3-28-48
TRACTORS & BUILDERS CORP.	Brooklyn, N. Y.	5-12-47
DOOPING COMPANY	Providence, R. I.	6-1-50
HOME IMPROVEMENT CORP.	Buffalo, N. Y.	9-17-48
BRUCE H.	Des Moines, Iowa	12-13-39
H. DUDLEY	Culver City, Calif.	1-15-47
ON, DAVID ROBERT	St. Paul & Minneapolis, Minn.	11-17-41
ON, LOUIS	St. Paul & Minneapolis, Minn.	11-17-41
H. DUDLEY	Culver City, Calif.	1-15-47
SAMUEL H.	Pittsburgh, Pa.	11-5-48
ENNIS, INC.	Inglewood, Calif.	3-25-49
RUSSELL	Inglewood, Calif.	3-25-49
ING SERVICE	Muncie, Ind.	3-28-52
HEAD DOOR CO., INC.	Chicago, Ill.	1-8-49
GEORGE M.	Atlanta, Ga.	1-17-41
DANIEL	Philadelphia, Pa.	3-29-49
ON COTTAGE CONSTRUCTION		
CONSTRUCTION CO.	Dayton, Ohio	4-21-50
ROOFING CO.	Newark, N. J.	4-21-50
WILLIAM	Indianapolis, Ind.	8-27-51
C. B.	Brooklyn, N. Y.	5-12-47
AVID BEN	Nicholasville, Ky.	6-15-50
CONSTRUCTION CO.	Nicholasville, Ky.	6-15-50
R.	Brooklyn, N. Y.	9-8-50
ROOFING CO.	Jackson, Tenn.	12-30-47
ROOFING & INSULATION CO.	Birmingham, Ala.	12-9-52
ROOFING & SIDING CO.	Birmingham, Ala.	12-9-52
D. A.	Birmingham, Ala.	12-9-52
JACK	Reading, Pa.	11-29-51
(ALBISANI), THEODORE	Portland, Ore.	7-3-40
BERNARD D.	Flushing, N. Y.	7-20-51
PAUL M.	Des Moines, Iowa	2-26-48
STRUCTION CO.	Des Moines, Ia.	4-17-52
IA CONSTRUCTION CO.	Belleville, N. J.	11-17-49
ALLEN) NORMAN JOHN	Alexandria, Va.	9-27-48
RACTING CO.	Los Angeles, Calif.	6-12-51
ROOFING CO. (THE)	Clayton, Mo.	9-19-52
.	Angelica, N. Y.	12-17-51
PROVEMENT CO.	Los Angeles, Calif.	11-13-51
ALLAN) JOHN	Oil City, Pa.	12-22-48
JOSEPH	San Antonio, Tex.	7-13-51
MORRIS G.	Buffalo, N. Y.	7-15-47
I. P.	Camden, N. J.	2-3-47
I. P. HEATING SERVICE	Indianapolis, Ind.	4-1-48
G, JOE	Indianapolis, Ind.	4-1-48
JOHN F.	Memphis, Tenn.	9-28-48
BUILDING CO.	Los Angeles, Calif.	3-2-49
COOLING & HEATING CORP.	Union City, N. J.	1-26-51
DISTRIBUTORS	Chicago, Ill.	8-20-52
HOME REMODELING CO.	New Orleans, La.	1-28-53
SALES COMPANY	Lawrence, Mass. Rutland & Burlington, Vt.	6-30-52
HARRIETT (MRS. LEWIS)	Portland, Ore.	11-30-51
LEWIS	Portland & Eugene, Ore.	6-30-52
JOHN	Portland & Eugene, Ore.	6-30-52
HEATING CO.	Detroit, Mich.	12-3-48
INSULATING CO.	Kansas City, Mo.	3-7-51
TITE ALUMINUM AWNINGS	Houston, Tex.	2-3-49
COMPANY	Buffalo, N. Y. & Pittsburgh, Pa.	2-10-50
IA, ALFONSO	Hialeah, Fla.	8-20-52
	Brooklyn, N. Y.	3-20-42

NAME	ADDRESS	DATE
ALTERMA, EARL	Sacramento, Calif.	1-2
ALTERMAN, EARL	Sacramento, Calif.	1-2
ALU-CRAFTERS CO.	Chicago, Ill.	.
ALUMINUM BUILDING MATERIALS CO.	Butler, Pa.	.
ALUMINUM CONSTRUCTION CO.	Buffalo, N. Y.	.
ALUMINUM HOME IMPROVEMENT CO., INC.	Des Moines, Iowa	1-2
AMERICAN BUILDING CO.	Port Arthur & Corpus Christi, Tex.	1
AMERICAN CONSTRUCTION CO.	Belleville, N. J.	1-2
AMERICAN HOME ENGINEERING CO.	Jamaica, N. Y.	.
AMERICAN HOME IMPROVEMENT CO.	Omaha, Neb.	.
AMERICAN INDUSTRIES	Los Angeles, South Gate, Eagle Rock & Beverly Hills, Calif	.
AMERICAN PROPANE CORP.	Norwich & Waterford, Conn.	.
AMERICAN RADIANT HEATING CO.	Brooklyn, N. Y.	1-2
AMERICAN S&W CORPORATION	Santa Ana & Culver City, Calif.	.
AMERICAN STOKER HEATING CO.	Bellport, L. I., N. Y.	.
AMERICAN STORM WINDOW CO. INC.	Springfield, Mass.	.
AMERICAN TILE CORPORATION	Columbus, Ohio	.
AMERICAN WATER SOFTENER CO., INC.	Los Angeles, South Gate, Eagle Rock & Beverly Hills, Calif.	1
AMOS, L.	Detroit, Mich.	10
AMSTER, SAMUEL	Rockaway, N. J.	6-24
ANCHER, EDWARD B.	Corona, L. I., N. Y.	10-24
ANDERSEN, LIEF E.	Lynbrook, L. I., N. Y.	3-24
ANDERSEN & LINDENWALD, INC.	Lynbrook, L. I., N. Y.	3-24
ANDERSON, ANDY	Biloxi, Miss.	1-24
ANDERSON, BILL	St. Louis, Mo.	3-24
ANDERSON, CHARLES	St. Louis, Mo.	3-24
ANDERSON, FRED O.	Butler, Pa.	7-24
ANDERSON, J.	Boise, Idaho	12-24
ANDERSON, NEWELL WELDON	Biloxi, Miss.	1-24
ANDERSON, ROY J.	Portland, Ore.	5-13
ANDERSON, ROY J. LANDSCAPE DESIGNER	Portland, Ore.	5-13
ANDERSON, ROY J. LANDSCAPING	Portland, Ore.	5-13
ANDERSON, WILLIAM C. (JR.)	Marshall, Ill.	10-19
ANDREOLE, HAROLD	New London, Conn.	9-23
ANDREOLE, MARINO	New London, Conn.	9-23
ANDREWS, JOHN	Newark, N. J.	4-21
ANDREWS, O. T. (SR.)	Oakland, Calif.	11-21
ANNUNZIATO, FRANK	Worcester Mass.	3-31
APPROVED CONSTRUCTION CO.	North Hollywood, Calif.	3-19
APPROVED CONSTRUCTORS, INC.	North Hollywood, Calif.	3-19
AQUA SOFT COMPANY	Burbank, Calif.	9-9
ARAGONA, DOMONICK	Brooklyn, N. Y., N. Y.	2-13
ARDEN CONSTRUCTION CO., INC.	Flushing, N. Y.	7-20
ARKANSAS SPECIALTY CO.	Jonesboro, Ark.	4-11
ARMSTRONG, DOUGLAS	Los Angeles, Calif.	6-13
ARMSTRONG, HASKELL W.	Hopkinsville, Ky.	7-19
ARMSTRONG PLUMBING & HEATING CO.	Hopkinsville, Ky.	7-19
ARNREITER, T. V.	Portland, Ore.	11-17
ARPIN, F. D.	West Orange N. J.	5-13
ASBESTOS PRODUCTS CO.	St. Louis, Mo.	3-21
ASCH, CHARLES H.	Memphis, Tenn. Dallas, Tex.	9-29
ASH, CLAUDE	Indianapolis, Ind.	5-13
ASH, ED	Kent, Wash.	5-15
ASHBAUGH, F. E.	San Antonio, Tex.	9-29
ASSOCIATED BUILDING CRAFTS	Dayton, Ohio	8-21
ASSOCIATED INSULATION CO.	Richmond Heights, Mo.	6-29
ASSOCIATED MAINTENANCE & BUILDERS	Indianapolis, Ind.	5-13
ASSOCIATED ROOFING & SIDING CO.	Chicago, Ill.	2-19
ASTLEY, M.	Lawrence, Mass.	6-29
ATCHLEY, LEE	Memphis, Tenn.	8-21
ATHENS LUMBER CO., INC.	Morgantown, W. Va.	9-29
ATKINSON, JOHN B.	Dayton, Ohio	9-29
ATLANTIC HEATING CO.	Mt. Clemens, Mich.	4-23

HOUSING ACT OF 1954

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	ADDRESS	DATE ISSUED
DUCTION CO.	San Diego, Calif.	6-23-48
APPLIANCE CO.	Garden City, L. I., N. Y.	9-3-48
IMPROVEMENT CO.	Detroit, Mich.	12-14-49
ERS	San Antonio, Tex.	12-9-49
	Newark & Woodbridge, N. J.	9-7-39
MS, J.	Roebbling, N. J.	7-6-48
DON B.	Noblesville, Ind. Milwaukee, Wisc.	10-9-39
B		
ANCE CO.	Memphis, Tenn.	1-16-51
D.	Los Angeles, Calif.	12-14-42
	Bogalusa, La.	11-25-39
	Minneapolis, Minn.	5-7-52
UD P.	Bogalusa, La.	11-25-39
J. L.	Miami, Fla.	9-25-44
I	Laguna Beach, Calif.	3-6-41
IN D.	Syracuse, N. Y.	8-27-41
I	Teaneck & W. Englewood, N. J.	11-28-51
E R.	New Haven, Conn.	1-10-51
	Roosevelt, Utah	4-12-49
	Salt Lake City, Utah	
L J.	Baltimore, Md.	4-28-52
I A.	Los Angeles Calif.	6-12-51
WILLIAM	West New York, N. J.	6-30-50
A.	Redding, Calif.	11-13-40
PH	Wilmington, Calif.	10-13-47
ILES	Elmhurst, L. I., N. Y.	8-1-52
IGE	Scranton, Pa. Riverton, N. J.	12-13-48
TRUCTION CO.	Detroit, Mich.	1-27-50
EO	Arlington, Va.	3-10-49
IN	Milwaukee, Wisc.	8-30-40
I.	Boston, Mass. Manchester, N. H.	1-22-43
IN E.	Los Angeles, Calif.	9-7-51
IK E.	Dayton, Ohio	12-11-46
ION	West New York, N. J.	6-30-50
	W. Hollywood, & Oakland, Calif.	11-21-51
UD J.	Irvington & West Orange, N. J.	5-21-42
	Forest Hills L. I., N. Y.	3-17-48
	East Rutherford, N. J.	
	Los Angeles, Calif.	10-1-51
RUTH	Memphis, Tenn.	10-21-48
	Memphis & Nashville, Tenn.	5-3-45
	Little Rock, Ark. Jackson, Miss.	
S C.	Memphis, Tenn.	10-21-48
E FRANCIS	Kansas City, Kan.	5-19-45
IARD	Corona, L. I. N. Y.	10-31-47
ILE	Portland, Ore.	7-3-40
L	Brooklyn, N. Y.	6-27-50
A. L.	Covington, Ky.	9-21-39
.	Yakima, Wash.	12-11-41
ME APPLIANCE CORP.	Brooklyn, N. Y.	8-17-48
LDING SPECIALTIES	Milwaukee, Wis.	6-2-50
RD L.	Portland, Ore.	10-18-48
NG & PLUMBING	Boyer City & Mancelona, Mich.	1-11-51
H J. (SR.)	Boyer City, Mich.	1-11-51
H J. (JR.)	Mancelona, Mich.	1-11-51
H J. & SON	Boyer City & Mancelona, Mich.	1-11-51
ILES L.	Louisville, Ky.	9-14-50
C.	Hattiesburg, Miss.	6-13-49
L.	New Orleans, La.	8-5-47
AMIN	Albuquerque, N. M. Memphis, Tenn.	-28-48
IG CO.	Columbus, Ohio	1-12-51
IG & INSULATING CO.	Columbus, Ohio	1-12-51
T	Columbus, Ohio	1-12-51
	Evansville, Ind.	8-31-51
	Atlanta, Ga.	11-14-50

NAME	ADDRESS	DATE
BECKER, IRVING I.	Brooklyn, N. Y.	
BEERMAN, LEE	Baltimore, Md.	
BEGLY, EDWARD L.	Los Angeles, Calif.	
BEGNER, S. G.	Atlanta, Ga.	
BELL CONTRACTORS	Clayton, Mo.	
BELL, ROBERT	Chicago, Ill.	
BELLAMY G. W.	Chicago, Ill.	
BELLEFONTAINE CONSTRUCTION CO.	Bellefontaine, Ohio	
BELLEROSE CONSTRUCTION CO.	Bellerose, L. I., N. Y.	
BELLIVEAU, LEO A.	Springfield, Mass.	1
BELMONT LUMBER CO., INC.	Tampa, Fla.	
BENDER, BERNARD	Dayton, Ohio Indianapolis, Ind.	1
BENDER, JACK	Hamilton, Cincinnati & Lima, Ohio	
	Connersville, Ind.	
BENDER, SAM G.	Hamilton, Cincinnati & Lima, Ohio	
	Connersville, Ind.	
RENGOR, WILLIAM	Syracuse, N. Y.	
BENJAMIN, NATHANIEL	New York, N. Y. Lakewood, N. J.	
BENNETT, J. W.	Chicago, Ill.	
BENNETT, MAX	Terre Haute, Ind.	
BENNETT, ORMAN	Cleveland, Ohio	
BENSON, O. G.	Atkin, Minn. Superior, Wisc.	
BENTON, CARL	Lakewood, N. J. New York, N. Y.	
BERG, DAVID	Los Angeles, Calif.	
BERG, FRED	Chicago, Ill.	1
BERG, NATE	Cleveland, Ohio	1
BERGEN CONSTRUCTION CO.	Newark, N. J.	1
BERGER, MAURICE (MAUREY or MOOREY) J	Fresno, Oakland & Los Angeles, Calif.	2
BERGER, MORRIS J.	Los Angeles, Calif.	4
BERGERE, MAURICE	Fresno & Oakland, Calif.	2
BERGERON, P. E.	Coleman, Wisc.	1
BERGERON SUPPLY CO.	Coleman, Wisc.	1
BERNARD, JERRY	Miami, Fla.	1
BERNARD, JOSEPH	Newark, N. J.	1
BERNS, JACK	Buffalo, N. Y.	1
BERNSTEIN, IRWIN J.	Buffalo, N. Y.	1
BERNSTEIN, ISADORE	Buffalo, N. Y.	1
BERNSTEIN, SOLOMON ALBERT	Hollis, L. I., N. Y.	1
BERRY BROTHERS	Brooklyn, N. Y.	
BERRY, HARRY	Fresno, Calif.	1
BERRY, JAMES R.	Brooklyn, N. Y.	
BERRY, JEROME	Fresno, Calif.	1
BERRY, LESLIE E.	Philadelphia, Pa.	
BERRY, WILLIAM	Atlantic City, N. J.	
	Pleasantville, N. J.	
BERRY, WILLIAM & CO.	Atlantic City, N. J.	
	Pleasantville, N. J.	
BERTHIAUME, M. J.	Daly City, Calif.	1
BETHE, CHARLES	St. Louis, Mo.	
BETHLEHEM PLASTER BRICK CO.	Buffalo, N. Y.	1
BETTER HOME IMPROVEMENT CO.	Los Angeles, Calif.	
BETTER HOMES CONSTRUCTION CO.	Jacksonville, Fla.	
BETTER HOMES INSULATION CO.	East Orange, N. J.	1
BETTER HOMES SERVICE CO.	St. Louis, Mo.	
BETZIG, HARRY E.	Pittsburgh, Pa.	
BETZIG-PORTER	Pittsburgh, Pa.	
BIELER, EDWIN J.	N. Hollywood, Calif.	
BIENSTEIN, DAVID	New York, N. Y.	
BILLETT, E. R. (BUD JR.)	Oakland, Calif.	1
BINDER, JERRY	Philadelphia, Pa.	
BINGHAM, RAYMOND	Tulsa, Okla.	
BIRZER BUILDING CO.	Cincinnati, Ohio	1
BISHOP, JOHNNY	Birmingham, Ala.	
BISHOP, MAX	Birmingham, Ala.	
BIXLER & STORY LUMBER CO.	Steele, Mo.	1

HOUSING ACT OF 1954

1911

	ADDRESS	DATE ISSUED
	Steele, Mo.	10-8-52
	Hamilton, Cincinnati & Lima, Ohio	1-31-49
D	Missoula, Mont.	1-31-46
RY	Picayune, Miss.	7-21-50
E	Fresno & Oakland, Calif.	2-29-52
CO.	St. Louis, Mo.	3-31-52
C. (E.)	Tuscaloosa, Ala.	6-29-51
E.	St. Louis, Mo.	3-26-48
	Fresno & Oakland, Calif.	2-29-52
	Jammica, N. Y.	5-21-42
JL H.	Jammica, N. Y.	5-21-42
L W.	Binghamton & New York, N. Y.	10-23-50
	Hazleton, Pa. Nutley, N. J.	
	Providence, R. I.	6-14-45
	Providence, R. I.	6-14-45
ITION CO.	Pittsburgh, Pa.	11-8-48
	Pittsburgh, Pa.	11-8-48
	Long Beach, Calif.	11-21-51
RNACE CO.	Kansas City, Mo.	9-20-51
RIS B.	Cleveland, Ohio	12-17-51
)	Bronx, N. Y.	12-5-46
IN D.	New York, N. Y.	9-29-49
ELECTRIC APPLIANCES	New York, N. Y.	9-29-49
	New York, N. Y.	9-29-49
S.	Port Arthur & Corpus Christi, Tex.	5-21-48
B.	Long Beach, Calif.	11-21-51
	Kelly, La.	9-23-46
PROVEMENT CO.	Mansfield, Ohio	1-19-49
	San Diego, Calif.	6-1-43
	Reading, Pa.	11-29-51
S	Tallahassee, Fla. Dayton, Ohio	9-12-42
	Detroit, Mich.	5-10-46
	Milwaukee, Wis.	5-23-42
	Steubenville, Ohio	6-16-52
	Haddonfield, N. J.	1-10-46
ELL	Los Angeles, Calif.	4-17-52
	Alexandria, La.	5-23-41
	Brooklyn, N. Y.	8-17-48
	New York, N. Y.	5-12-50
R.	West Haven, Conn.	11-5-48
S.	Seattle, Wash.	3-22-48
E	San Antonio, Tex.	11-28-52
C.	Brooklyn, N. Y.	7-27-49
	Los Angeles, Calif.	9-24-40
(THE)	Fort Wayne, Ind.	3-18-49
	West Aliquippa, Pa.	7-30-47
N. (RICHARD)	Fort Wayne, Ind.	3-18-49
	Birmingham, Ala.	6-6-52
	Los Angeles, Calif.	4-16-52
	Houston, Tex.	8-31-51
	Brooklyn, N. Y.	5-12-47
W.	Philadelphia, Pa.	6-27-50
A.	Boston, Mass.	4-25-47
SS T.	San Antonio, Tex.	7-23-48
	Oakland, Calif.	11-29-51
H.	Dayton, Ohio	8-31-51
	Buffalo, N. Y.	5-2-51
	Portland, Ore.	2-2-50
L.	Fort Worth, Tex.	9-13-48
	Shreveport, La.	6-4-52
	Chicago, Ill.	7-13-50
UM	Lansdowne, Pa.	3-14-46
ERMAN	Philadelphia, Pa.	3-29-46
	San Antonio, Tex.	7-13-51
TER (JACK)	Niagara Falls, N. Y.	3-29-46
ICK G.	Chicago, Ill.	3-14-47

NAME

ADDRESS

I

ERIC SIDING INSULATION SERVICE	Stockton, Calif.
ERISSANE, WILLIAM	Watertown, N. Y.
BRITTAIN, ALBERTA D.	Sedan, Kan.
BRITTAIN, GRAYDON E.	Sedan, Kan.
BROCHU, JOSEPH W.	Lorain, Ohio
BROGAN, JOHN	Rochester, Minn.
BRONSTAD, ALLEN	Meridian, Glen Rose & Walnut Springs, Tex.
BRONSTEIN, SAMUEL	Neptune City & Linden, N. J.
BROOKS, CLARENCE	Brooklyn, N. Y.
BROOKS, I. J.	Buffalo, N. Y.
BROOKS, LEE R.	Des Moines, Iowa
BROOKS, R. S.	Dallas, Tex.
BROSSEMAN, ALBERT	New York, N. Y.
	Forest Hills, L. I., N. Y.
	East Rutherford, N. J.
	Brooklyn & Bronx, N. Y.
	Belleville, N. J.
	Belmar & Belleville, N. J.
	Buffalo & New York, N. Y.
	Chicago, Ill. Hammond & Gary, Ind.
	Gardena, Calif.
	St. Louis, Mo. Muskogee, Okla.
	Oakland Cal f.
	Waterbury, Conn.
	Waterbury, Conn.
	Dallas Tex.
	Minneapolis Minn.
	Neptune & Linden, N. J.
	Cleveland Heights, Ohio
	Miami, Fla.
	Brooklyn, N. Y.
	Des Moines, Iowa
	Brockton, Mass.
	Des Moines, Iowa
	New York & Mt. Vernon, N. Y.
	Des Moines, Iowa
	Chicago, Ill.
	Hamilton & Middletown, Ohio
	Memphis, Tenn.
	Des Moines, Iowa
	St. Louis, Mo.
	Los Angeles, Calif.
	Detroit, Mich.
	Oakland, Calif.
	Brighton, Mass.
	Towson & Baltimore, Md.
	Newark, N. J.
	St. Paul, Minn.
	Chicago, Ill.
	New Bedford, Mass.
	Asheville, N. C.
	Oakland, Calif.
	Milwaukee Wis.
	Oakland, Calif.
	St. Clair Shores & Detroit, Mich.
	Freeport, L. I., N. Y.
	Toledo, Ohio
	Toledo, Ohio
	Greenville, Miss.
	Dallas, Tex.
	Dallas, Tex.
	Waterloo & Des Moines, Iowa

C

IS CO.

Chicago, Ill.

HOUSING ACT OF 1954

1913

ADDRESS	DATE ISSUED
RON	Houston, Tex. 1-12-51
	Miami, Fla. 8-20-52
	Shreveport, La. 5-4-51
	Springfield, Mass. 11-9-50
	Los Angeles, Cal. f. 7-6-51
	Chicago, Ill. Houston, Tex. 1-31-51
	Chicago, Ill. Houston, Tex. 1-31-51
	Sacramento, Calif. 11-20-50
R SOFTENER CO.	San Jose, Calif. 9-6-51
N C.	Dallas, Tex. 12-28-51
	San Antonio, Tex. 7-13-51
, INC.	San Antonio, Tex. 7-13-51
	Des Moines & Fort Dodge, Iowa 8-10-51
	Meridian, Glen Rose & 3-10-49
	Walnut Springs Tex.
MEER CO.	Meridian, Glen Rose & 3-10-49
	Walnut Springs, Tex.
AM F.	Norwalk, Conn. 12-11-51
	White Plains, N. Y.
NG CO.	S. Ozone Park L. I., N. Y. 5-29-52
(JR.)	S. Ozone Park, L. I., N. Y. 5-29-52
	Newark, N. J. 10-5-39
S & ASSOCIATES, INC.	Chicago, Ill Houston, Tex. 1-31-51
	Chicago, Ill. Houston, Tex. 1-31-51
Initials Unknown)	Pomona, Cali 9-27-51
IAM D.	Los Angeles Calif. 11-25-41
ING CO.	Rochester, inn. 5-31-50
PROVEMENT CO., INC.	Springfield, Ill. Milwaukee, Wis. 4-17-52
AN	Jackson, Tenn. 12-30-47
	Springfield, Mass. 11-12-46
S D.	Brooklyn, N. Y. 5-12-47
JACK)	Los Angeles, Calif. 3-30-51
	Portland, Ore. Spokane, Wash. 11-30-51
	Boise, Idaho 5-23-47
MRS.)	Boise, Idaho 5-23-47
C J.	Chicago, Ill. 12-15-50
	Portland, Ore. Spokane, Wash. 11-30-51
& SIDING CO.	Chicago, Ill. 1-31-51
CIS M.	Memphis, Tenn. 2-17-49
	Cambridge, Mass. Alton, Ill. 6-10-52
	Greenville, Miss. 7-22-48
	Davenport, Iowa 11-28-51
	Nutley, N. J. 7-23-51
J.	Chicago, Il 2-8-50
	Asheville N. C. 1-3-49
OMPANY	Detroit, Mich. 1-16-51
	Detroit, Mich. Marlow, Okla. 1-16-51
	Duncan, Okla. 4-11-51
	Paducah, Ky. 8-24-50
	San Antonio, Tex. 11-28-52
M.	Paducah, Ky. 8-24-50
	Fresno, Calif. 11-3-42
	St. Louis, Mo. 3-31-52
	Atlanta, Ga. 12-19-39
	Wilkes-Barre, Pa. 5-1-45
(MRS. JAMES A.)	Wilkes-Barre, Pa. 5-1-45
	Pittsburgh, Pa. 5-16-45
R. (AL.)	Bethesda & Silver Spring, Md. 2-14-49
S (CHUCK)	Bethesda & Silver Spring, Md. 2-14-49
	Fairfax, Va.
	White Sulphur Springs, W. Va.
	Bethesda, Md. 2-14-49
	Pasadena, Calif. 11-13-45
	Brooklyn, N. Y. 3-20-42
ACTION CO.	Kennewick, Wash. Portland, Ore. 7-20-51
	Black Eagle, Mta.

NAME	ADDRESS
CASSIDY, J. E.	Kennebec & Spokane, Wash.
CASTLE, SIDNEY	Portland, Ore. Black Eagle, Mta.
CATALDO, JOSEPH	South Bend, Ind.
CATALDO ROOFING CO.	Worcester, Mass.
CAUSEY BUTANE COMPANY	Worcester, Mass.
CAUSEY, CLYDE E.	Harrison, Ark.
CENTER POINT METAL CO.	Harrison, Ark.
CENTRAL EQUIPMENT & SUPPLY CO.	Birmingham, Ala.
CENTRAL HEATING & HOME IMPROVEMENT CO.	Atlantic City & Trenton, N. J.
CENTRAL OIL COMPANY	Atlantic City & Trenton, N. J.
CENTRAL STORM WINDOW CO.	Atlantic City & Trenton, N. J.
CENTURY BUILDERS COMPANY	Des Moines, Iowa
CERTIFIED CONSTRUCTION COMP.	Chicago, Ill.
CHAMBERS, WATSON R.	Montclair, N. J.
CHANDLER, R.	Oakland, Calif.
CHAPMAN, ROSCOE A.	Sylacauga, Ala.
CHAPPEL (CHAPPELLE) EARL	Indianapolis, Ind.
CHAPPELL, IVAN P.	Kansas City, Mo.
CHAPPMAN, HELEN	Pasadena, Calif.
CHASKIN, HAROLD	Miami & Hialeah, Fla.
CHEATHAM, JOHN O.	Los Angeles, Calif.
CHLAVEROTTI, ROSE	Milwaukee, Wis.
CHICAGO BUILDERS	Chicago, Ill.
CHISIK, SIDNEY	Miami, Fla.
CHITTICK, NELSON F.	Chicago, Ill.
CHRISTIANSEN & BUNCH	Los Angeles, Calif.
CHRISTIANSEN HEATING & SHEET METAL CO.	Clinton, Ia.
CHRISTIANSEN, LAWRENCE	Clinton, Ia.
CHRISTIANSEN, MERLE M.	Los Angeles, Calif.
CHRISTIANSEN, RUTH	Niles, Mich.
CHRISTOPHER, P.	Oakland, Calif.
CITIZENS CONSTRUCTION CO.	Los Angeles, Calif.
CITIZENS HOME IMPROVEMENT CO.	White Sulphur Springs, W. Va.
CITROW SAMUEL H.	Detroit, Mich.
CITY CONSTRUCTION CO.	Atlanta, Ga.
CITY HEATING COMPANY	New London, Conn.
CLARK, J. THOMAS	Towson & Baltimore, Md.
CLARK, E.	Mobile, Ala.
CLARK, HARRY	Biloxi & Meridian, Miss.
CLARK, R. H.	East Orange, N. J.
CLARKE, J. B.	San Antonio, Tex.
CLARY, MARION W.	Fort Wayne, Ind.
CLAWSON, FREDERICK A.	Pittsburgh, Pa.
CLEMENTS, ALEXANDER	North Hollywood, Calif.
CLEVELAND MODERNIZATION BUREAU	Los Angeles, Calif.
CLEVENGER, A. A.	Jersey City, N. J.
CLIFFORD, JAMES H.	Cleveland, Ohio
CLIMAN, ALLEN	Cedar Rapids, Ia.
CLIMAN, JOHN H.	Cranston, R. I.
CLINE, JACK	Syracuse, Troy & Albany, N. Y.
CLINTON, M. B.	Syracuse, Troy & Albany, N. Y.
CLOTFELTER, J. W.	Jonesboro, Ark.
CLOUGH, A. J.	Spartansburg, S. C.
CLOUTIER, NORMAN	Los Angeles, Calif.
COBBIE, ISADORE (JACK)	W. Palm Beach, Fla.
COCKERHAM, F. H.	Detroit, Mich.
CODDINGTON WILLIAM M.	Fort Wayne, Ind.
COHEN, HARRY	Riverside, Calif.
COHEN, PHILLIP	Yonkers, N. Y.
COHEN, PHILLIP J.	Houston, Tex. Chicago, Ill.
COHEN, SEYMOUR	Portsmouth, Ohio
	Dayton, Ohio
	Brooklyn, N. Y.

HOUSING ACT OF 1954

1915

	ADDRESS	DATE ISSUED
THOMAS L.	Columbus, Ohio	1-18-52
JOSEY MELLON	Los Angeles, Calif.	8-28-41
D. (JR.)	Los Angeles, Calif.	12-29-41
MARY	Chicago, Ill. Houston, Tex.	1-31-51
ERIS J.	Centralia, Ill.	7-25-40
FRANK	Newark, N. J.	9-15-39
JOE	Minneapolis, Minn.	5-7-52
MARY	Chicago, Ill. Houston, Tex.	1-31-51
R.	Chicago, Ill.	1-27-50
RICHARD	Chicago, Ill.	1-27-50
W. JOSEPH	Los Angeles, Calif.	11-8-50
INSTRUCTION CO., INC.	Brighton, Mass.	11-21-51
ONE IMPROVEMENT CO.	Washington, D. C.	12-15-49
HOME IMPROVEMENTS CO.,	Salina, Kan. Oklahoma City, Okla.	3-10-52
HOME IMPROVEMENT CO.	Denver, Colo.	
UTILITIES CO. INC.	Los Angeles, Calif.	7-11-51
TER SOFTENER CO.	Los Angeles, Calif.	7-11-51
E. FELIX J (JR.)	Los Angeles, Calif.	4-16-52
E. FELIX J (JR.) & CO.	New Orleans, La.	8-18-48
ALTH FURNACE CO.	New Orleans, La.	8-18-48
Y CONTRACTORS	Chicago, Ill.	10-24-51
Y HOUSECRAFT, INC.	Clayton, Mo.	9-19-52
CHARLES W.	Bethesda, Md.	2-14-49
EDWARD J.	Bellerose, N. Y.	3-27-46
ROBERT L.	Stockton, Calif.	12-13-48
FRANK	Stockton, Calif.	12-13-48
GEORGE L.	Buffalo, N. Y.	11-15-51
ATED HEATING CO., INC.	Los Angeles, Calif.	2-27-48
ATED HEATING & AIR	Baltimore, Md.	4-28-52
IONING CO.	Los Angeles, Calif.	10-22-48
ATED SASH & SCREEN CO.	Detroit, Mich.	6-30-52
TION SPECIALTIES CORP.	Miami, Fla.	8-31-51
. FRANK	Cambridge, Mass. Alton, Ill.	1-1-43
TAL CONSTRUCTION CO.	Birmingham, Ala.	7-17-51
OSTA HOUSING CO.	Oakland & Berkeley, Calif.	3-3-48
ORS ROOFING & SIDING CORP.	Nutley, N. J.	7-23-51
OR SALES CO., INC.	Los Angeles, Calif.	9-6-51
. F.	Detroit Mich.	6-19-45
ELEMMER	Owensboro, Ky.	4-16-42
JOSEPH	Terre Haute, Ind.	2-17-49
HEET METAL CO.	Terre Haute, Ind.	2-17-49
CECIL	Los Angeles, Calif.	9-20-51
FREDERICK C.	Kings Park, N. Y.	9-4-52
J. M.	Abbeville, Ga.	8-9-40
TIVE ROOFING CO.	Rochester, N. Y.	11-7-50
. EDWARD	Newark, N. J.	12-29-48
AY (ROY)	Salt Lake City, Utah	11-29-51
. AL	San Diego, Calif.	6-23-48
THUR	Los Angeles, Calif.	9-7-51
DOFING CO. (THE)	Atlantic City N. J.	11-15-51
. CHARLES	Oakland, Calif.	11-21-51
AMES E.	Los Angeles, Calif.	1-8-50
OBERT	Kansas City, Mo.	6-26-46
. N.	Dallas, Texas	9-1-48
NCE CO.	Dallas, Tex.	9-1-48
. GEORGE C.	Stockton, Calif.	4-7-47
GLADYS SATHER	Tacoma, Wash. Canby, Ore. Boise, Idaho	5-16-45
WILLIAM H. (BUCK)	Tacoma, Wash Canby, Ore. Boise, Idaho	5-16-45
EDWARD	Plainfield, N. J.	12-2-48
ME SERVICE CO.	Houston, Tex.	1-10-51
ME SERVICE CO.	Grand Island, Neb.	11-30-51
S.	Azuza, Calif.	4-16-52
E. D. E.	Pasco, Wash.	4-24-52
UNTRY BUILDERS	Woodmere, L. I., N. Y.	2-2-50
. HENRY P.	Boston, Mass.	6-5-47

NAME

ADDRESS

CRUMP, J. O.	Reading, Pa.
CRUMPACKER, B. C.	Des Moines, Iowa
CRUMPTON, OLIVER WENDELL	Little Rock, Ark.
CRUTCHER, MARTIN L.	Nashville & Murfreesboro, Tenn.
CUFF JAMES (JIM)	Portland, Ore.
CURTIS, J. H.	Santa Monica, Calif.
CUSHING, THEODORE K.	Chicago, Ill.

D

D & C BUILDING & IMPROVEMENT CO.	Chicago, Ill.	
D & C IMPROVEMENT COMPANY	Chicago, Ill.	
D & C TILE COMPANY	Chicago, Ill.	
DAHL, SIDNEY	Azuza, Calif.	
DAILEY, GEORGE	White Plains, N. Y.	
DALE, JOHN	Bogalusa, La.	
DALE, O. P.	Crane & Martinsville, Ind.	
DALE, PEARCE	Crane & Martinsville, Ind.	
DALE, T. P.	Crane & Martinsville, Ind.	
DALLAS INSUL-WOOL CO.	Dallas, Tex.	
DALY A. JAMES	Pittsburgh, Pa.	
DANEK, MARTIN	Rahway, N. J.	
DANGERFIELD, LeROY	Los Angeles & El Monte, Calif.	
DANIEL, LON	Kansas City, Mo.	
DANIELS, R. L.	Omaha, Neb.	
DANIELS, S. (STEPHEN)	Jacksonville, Fla.	
DANIELS, SIGMUND L.	Jacksonville, Fla.	
DARBY JOSEPH	Los Angeles, Calif.	
DARNABY, FRANK	Cincinnati, Ohio	
DAVIDSON, B. (MRS.)	Los Angeles, Calif.	
DAVIS & ASSOCIATES	Milwaukee, Wis.	
DAVIS, HAROLD E.	Benton, Ill.	
DAVIS, HARRY	Brookline & Newton, Mass.	
DAVIS HOME IMPROVEMENT CO.	Benton, Ill.	7
DAVIS, JACK	Brooklyn, N. Y.	7
DAVIS, LESTER HAROLD	Lisbon, Ohio	3
DAVIS, RUSSELL	Milwaukee Wis.	1
DAVIS, WILLIAM	Detroit, Mich.	9
DAVISON, ROBERT	Belleville, N. J. New York, N. Y.	11
DAWE, CHARLES R.	W. Hollywood & Oakland, Calif.	11
DAY AND NIGHT PLUMBING CO.	Fort Worth, Tex.	9
DAY, JIMMY	Pensacola, Fla.	6
DATE, ARTHUR E.	Jacksonville, Fla.	7
DeBELLA, MARIO	Brooklyn, N. Y.	5
DeFORD, CALVIN L.	Hawthorne & Oakland, Calif.	12
DeFORD INSTALLATION	Hawthorne & Oakland, Calif.	1
DEDERICHS, JOE H.	Dallas & Houston, Tex.	
DEEP, E.	East Orange, N. J.	10
DEIBLER, ROY E. (JR.)	Bound Brook & Plainfield, N. J.	1
DELANEY, E. E.	Birmingham, Mobile & Montgomery, Ala.	
DELANEY'S, INC.	Birmingham, Mobile & Montgomery, Ala.	
DeLEE, ARTHUR	Brooklyn & Bronx, N. Y. Belleville, N. J.	4
DEJONGER, EARL	Biloxi Miss	
DeLUCA, BEN J.	Lexington, Ky.	12
DeLUCA, JO ANN	Lexington, Ky.	12
DENBY, MARK	Detroit, Mich.	1
DENNIS, GEORGE B.	Inglewood, Calif.	1
DENTON, E.	Cincinnati, Ohio	1
DENTON, E. C.	Cincinnati, Ohio	1
TON, E. P.	Cincinnati, Ohio	1
TON, P.	Cincinnati, Ohio	1
TON, I.	Cincinnati, Ohio	1
	Baltimore, Md.	
	Montgomery, Ala.	1
	Youngstown, Ohio	
	Des Moines & Fort Dodge, Iowa	
	N. Y.	

HOUSING ACT OF 1954

1917

	ADDRESS	DATE ISSUED
ACTION CO.	Memphis, Tenn.	10-24-50
LIAM LEON	Houston, Tex.	9-26-47
)	N. Hollywood, Calif.	9-20-51
	Marysville & Oroville, Calif.	9-11-46
COMPANY	Marysville & Oroville, Calif.	9-11-46
UCTION CO.	Indianapolis, Ind.	8-31-51
	East Orange & Newark, N. J.	8-23-46
) E.	Hamilton & Middletown, Ohio	1-31-49
UD L.	Dayton, Ohio	4-21-50
IE ANN	Dayton, Ohio	4-21-50
ES	Pomona, Calif.	9-27-51
MIN (BENNIE)	Detroit, Mich.	10-8-52
MIN, INC.	Detroit, Mich.	10-8-52
IE BUILDING CO.	Detroit, Mich.	10-8-52
RICK	Nutley, N. J.	7-23-51
IMPROVEMENT CO.	Atlantic City & Pleasantville, N. J.	5-2-50
VEL	Belleville, N. J.	3-12-48
OG & SIDING CO.	Belleville, N. J.	3-12-48
CHAEEL	Buffalo, N. Y.	9-17-48
ON CO.	Jackson, Miss.	10-6-48
ON CO.	Memphis, Tenn.	10-28-48
SE S.	Detroit, Mich.	1-16-51
CK E.	Knoxville, Tenn.	1-10-42
W.	San Diego, Calif.	3-27-42
E.	Sturgis, Mich.	10-17-52
H.	Corpus Christi, Tex.	1-16-51
	Los Angeles, Calif.	4-16-52
	Columbus, Ohio	5-29-52
	Portland, Ore.	6-30-52
W.	Flint, Mich.	9-15-52
CTION CO.	Chicago, Ill.	1-3-49
ARD S.	Jamaica, N. Y.	4-19-48
AM	Los Angeles, Calif.	10-3-46
	Norwich, Conn.	7-8-49
UT F.	Bronx & New York, N. Y.	11-29-51
	Waltham, Mass.	9-28-50
	Madison, Wis.	6-14-48
	Fresno & Bakersfield, Calif.	4-3-39
	Philadelphia, Pa.	5-12-52
	New York, N. Y.	9-26-44
ERT	New York, N. Y. Belleville, N. J.	6-21-45
H.	Des Moines, Iowa	8-10-51
V	Minneapolis, Minn.	5-7-52
I	Minneapolis, Minn.	5-7-52
	Oakland, Calif.	7-20-41
	Norfolk, Va.	1-16-45
	Pasadena, Tex.	8-11-50
AM J.	Flushing, Brooklyn & Kingston, N. Y.	6-23-41
	Jonesboro, Ark.	6-29-51
)	Sacramento, Calif.	11-20-50
	Shreveport, La.	6-4-52
F	Los Angeles, Calif.	6-17-49
A.	Baltimore Md	12-18-40
	East Orange, N. J.	10-28-48
WILLARD	Pensacola, Fla.	6-5-46
E	Fresno & Oakland, Calif.	2-29-52
A.	Venice, Calif.	7-31-51
P.	Kansas City, Kan.	9-15-41
	Kansas City, Kan.	9-15-41
E		
BUILDING INSULATORS CO.	Dayton, Ohio	9-30-48
ON & ROOFING CO.	Sheboygan, Wis.	12-18-49
NSULATION CO.	Sylacauga, Ala.	5-3-48
ACTION CO.	Wenatchee, Wash.	10-1-52
	Wenatchee, Wash.	10-1-52

NAME	ADDRESS	DATE
ECONOMY CONSTRUCTION CO.	Waltham, Mass.	1
ECONOMY FURNACE CO.	Lisbon, Ohio	1
ECONOMY GARAGES	St. Louis, Mo.	1
ECONOMY ROOFING & SIDING CO.	Massillon, Ohio	1
ECTOR, R. D. A. JONES (MRS.)	Houston, Texas	1
EDDY, DWIGHT H.	Los Angeles, Calif.	1
EDDY, RAYMOND N. (RAY)	N. Hollywood, Calif.	1
EDELMAN, JACK	Louisville, Ky	1
EDWARDS, A. G.	Duncan & Marlow, Okla.	1
EDWARDS, EARL	Indianapolis, Ind.	1
EDWARDS, J.	Chicago, Ill	1
EDWARDS, BEN	Dayton, Ohio	1
EDWARDS, HERMAN	Detroit, Mich.	1
EDWARDS, RONALD L.	Birmingham, Mich.	1
EDWARDS, VANCE	Houston, Tex.	1
EDWARDS, WILLIAM H. (JR.)	Louisville, Ky.	1
EGAN, CHARLES H.	Plymouth, Mass.	1
EGAN, JOHN M.	Pittsburgh & McKees Rock, Pa.	1
	Cleveland, Ohio	1
EGGERS, OTTO K.	Saginaw, Mich.	1
EICKHOLT, ARLO	Toledo, Ohio	1
EICKHOLT, ARLO COMPANY	Toledo, Ohio	1
EISENBERG, MAX (MARK, MACK, MICHAEL)	Irvington & Newark, N. J.	1
	Philadelphia, Pa.	1
ELECTRO-SOFT COMPANY	Montebello, Calif.	1
ELLIOTT, HARRY (HENRY) CLAYTON	Kansas City, Mo.	1
ELLIOTT, MARK	Los Angeles, Calif.	1
ELLIOTT, MORTIMER	Jamaica, N. Y.	1
ELLIOTT, NATHAN	Los Angeles, Calif.	1
ELLIOTT, OMER N.	Houston, Tex.	1
ELLIS, HUGH	Houston, Tex.	1
ELLIS, JOHN H.	Knoxville, Tenn.	1
ELLIS, MAX	Pontiac, Mich.	1
ELLSWORTH, KENNETH	North Sacramento, Calif.	1
ELLSWORTH SEPTIC TANK CO.	North Sacramento, Calif.	1
EMERSON, ABRAHAM J.	Richmond Hill, N. Y.	1
EMMERMAN, ABRAHAM J.	Richmond Hill, N. Y.	1
EMORY PARK ROOFING CO.	Asheville, N. C.	1
EMPIRE CONSTRUCTION CO.	Chicago, Ill.	1
ENDURO ALUMINUM AWNINGS	Chicago, Ill.	1
ENGLE, RALPH	Grand Rapids, Mich.	1
ENGLISH, MILLEN L.	Buffalo, N. Y.	1
EPPE SAM	Newark & Atlantic City, N. J.	1
	Philadelphia, Pa.	1
EPSTEIN, BUDDY	Brooklyn & New York, N. Y.	1
EPSTEIN, ISADORE	Brooklyn & New York, N. Y.	1
EPSTEIN, KENNETH	Brooklyn & New York, N. Y.	1
EPSTEIN, PHILLIP	Chicago, Ill.	1
EPSTEIN, WALTER	Brooklyn & New York, N. Y.	1
ERDMAN, CHARLES E.	Hyattsville & Baltimore, Md.	1
ERJON CONSTRUCTION CO.	Brooklyn, N. Y.	1
ERMAN, WILLIAM	St. Louis, Mo.	1
ESCO, LEO	Dayton, Ohio	1
ESCOVITCH, LEO	Dayton, Ohio	1
ESTILL, ROBERT	Beaumont, San Antonio & Houston, Tex.	1
EVANS, A. B.	Medford, Ore. Oakland, Calif.	1
EVANS, C. C.	Medford, Ore. Oakland, Calif.	1
EVANS CONSTRUCTION CO.	Medford, Ore.	1
EVANS, E. E.	Oakland, Calif.	1
EVANS, W. R.	Houston, Tex.	1
EVANSVILLE ROOFING CO.	Evansville, Ind.	1
EWING, H. J.	Jacksonville, Fla.	1
EZRINE, BENJAMIN B.	Alexandria, Va.	1

F

FAIRBAIRN, J	Antonio, Tex.	1
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HOUSING ACT OF 1954

1919

NAME	ADDRESS	DATE ISSUED
FIELD, SIDNEY	Azuza, Calif.	4-16-52
F, EDWARD J.	Detroit, Mich.	11-1-45
F, JOSEPH EDWARD	Detroit, Mich.	11-1-45
F, JOSEPH	Detroit, Mich.	11-1-45
FL, HAROLD	Los Angeles, Calif.	5-1-52
F, JOHN L.	Lakeside, Calif.	3-27-42
F, JOSEPH	Detroit, Mich.	11-1-45
FT, L. G. (JR.)	Minneapolis, Minn.	9-12-44
FNER, J. H.	San Francisco, Calif.	7-9-41
THE INSULATION CO.	Nicholasville, Ky.	6-15-50
FERS, DONIVAN C.	Portland Ore.	6-30-52
AL CONSTRUCTION CO.	Kansas City Mo.	2-1-49
AL FUEL SAVINGS CO.	Portland, Ore.	10-18-48
AL HOME MODERNIZERS	Dallas, Tex.	12-28-51
AL INSULATION CO.	San Antonio, Tex.	7-23-48
SILVER, ALVIN	Newark, N. J.	11-22-40
SILVER, HARRY	Newark, N. J.	11-22-40
SILVER, IRWIN	Newark, N. J.	11-22-40
M, MANNY	Miami, Fla.	5-19-52
R, HAROLD	Kansas City, Mo. Milwaukee, Wis.	11-27-42
	Mankato & Duluth, Minn. Burlington & Council Bluffs, Iowa Dallas, Texas	
N, JACK	N. Hollywood, Hawthorne & Inglewood, Calif.	4-9-51
SEE, WILLIAM H.	Norfolk, Va.	7-3-46
S, GUS DAVID	Los Angeles, Calif.	8-28-41
S, FRANK	Des Moines, Iowa	11-30-50
S, KENNETH	Yakima, Wash.	12-11-41
TI, A. R.	Portland, Ore. Spokane, Wash.	12-28-51
ICE MORTGAGE CO.	Camden, N. J.	7-26-39
JOHN H. (JR.)	Wrentham, Mass.	2-21-46
ALLEN (A/K/A "MR. ALLEN")	Buffalo, N. Y.	8-16-51
NATHAN	Buffalo, N. Y.	9-20-51
Y, G. A.	Lyman, S. C.	11-27-42
DETECTIONEERING CO.	Painesville, Ohio	4-16-52
ER, GEORGE E.	Sheboygan, Wis.	12-19-49
R HEATING CO.	St. Louis & Webster Groves, Mo.	11-8-50
R, M. B. ("BERT")	North Hollywood, Calif.	7-20-41
R, MARTIN M.	St. Louis & Webster Groves, MO.	11-8-50
IAN, SAM E.	San Diego, Calif.	6-23-48
ERALD, DOUGLAS (DOUG)	Richmond Heights, Mo.	8-12-49
'ATRICK, FRANK E.	Si ver Spring, Md.	5-10-48
IMMONS, W. H.	Brockton & S. Weymouth, Mass.	5-16-51
STAR BURNER & APPLIANCE CO.	Philadelphia, Pa.	3-29-49
GAN PAINTING & DECORATING CO	Lockeford, Calif.	1-21-53
GAN, SAMUEL K.	Lockeford, Calif.	1-21-53
ER, BEN	Dayton, Ohio	6-18-40
JACK E.	Springfield, Mass.	11-9-50
NG, LESTER C.	Washington, D. C.	10-7-49
HER, O. D.	Sebring, Fla.	4-11-42
., EDWARD	Portland, Ore.	11-22-49
DA BUILDERS	Jacksonville, Fla.	7-28-52
DA HOME IMPROVEMENT CO.	Jacksonville, Fla.	6-4-48
RES, LISTON	Detroit, Mich.	12-14-49
, W. J.	Portland, Ore.	6-30-52
I, EDWARD	Kansas City, Mo.	11-9-50
, D. F.	Reading, Pa.	11-29-51
ISEK, JOE	Dallas, Tex.	7-11-47
DAVID R.	Portland, Ore.	11-21-51
IAN, CURTIS M. (CURT or KURT)	Los Angeles, Calif. San Antonio, Tex.	6-12-51
IAN, J. M.	Milwaukee, Wis.	8-30-40
LAGER, SAMUEL A.	Baltimore, Md.	4-21-41
DAVID	Syracuse, N. Y.	3-8-40
TS, JESSIE MAE	Meridian, Glen Rose & Walnut Springs, Tex.	3-10-49
ES, W. P.	Dayton & Cleveland, Ohio	11-20-47
RICK, GEORGE R.	Plainfield & New Albany, Ind.	2-13-45

NAME	ADDRESS	M
FREDERICKS, JOHN	Detroit, Mich.	
FREDERICKS, S.	Brooklyn, N. Y.	
FREEDMAN, M. V.	Shinglehouse, Pa.	
FRIED, AL	Wilmington, Calif.	
FRIEDMAN, I.	Chicago, Ill.	
FRIEDMAN, JOHN W.	Laguna Beach, Calif.	
FRIEDMAN, BERNARD E.	Philadelphia, Pa.	
FRIEDMAN, HYMAN	Pittsburgh, Pa.	
FRIEDMAN, MURRAY	New York, N. Y.	
FULLER-BURKE CO.	New Bedford, Mass.	
FULLER, JOHN H.	New Bedford, Mass.	Newark, N. J.
FULMER, GLENN	Newton, Iowa	
FURLOUGH, WILLIE J.	Dallas, Tex.	
FURNITURE EXCHANGE	Portland, Ore.	
G		
G. I. CONTRACTING CO.	St. Louis, Mo.	
G. & M HEATING & OIL BURNER SERVICE CO.	Newark, N. J.	
GALEA, HYMAN	Los Angeles & Alhambra, Calif.	
GALLAGHER, GEORGE C.	Oakland & San Francisco, Calif.	
GALLAGHER, JOHN V.	Portland, Ore.	
GALLO, LOU	Pittsburgh, Pa.	
GALLON, LOUIS L.	Mt. Vernon, N. Y.	
GALT, PHILLIP E.	Mt. Vernon, N. Y.	
GANNON, J. E.	Chicago, Ill.	
GANE, L. B.	Pittsburgh & McKees Rock, Pa.	
GARD, EUGENE	Cleveland, Ohio	
GARDNER, CY	Los Angeles, Calif.	
GARFIELD CONSTRUCTION CO.	Chicago, Ill.	
GARFIELD, REUBEN (RUBIN), J.	Los Angeles, Calif.	
GARFIELD, REUBEN	Nutley, Jersey City & Wood-Ridge, N. J.	
GARLAND LUMBER CO.	Nutley, Jersey City & Wood-Ridge, N. J.	
GARLAND, THOMAS	Atlanta, Ga.	
GARNER, (BENJAMIN)	Pembina, N. D.	
GARNEY, GEORGE	Pembina, N. D.	
GARRITY, JAMES	Newark & Irvington, N. J.	
GARRITY SALES CO.	Baltimore, Md.	
GARY CONSTRUCTION CO.	Toledo, Ohio	
GAYLORD, ALBERT	Toledo, Ohio	
GECKER, MILTON	Bronx & New York, N. Y.	
GENERAL ALUMINUM SALES CO.	Van Nuys, Calif.	
GENERAL CONSTRUCTION INDUSTRIES OF AMERICA	Louisville, Ky.	Portsmouth, Ohio
GENERAL HEATING & APPLIANCE CO.	Freeport, L. I., N. Y.	
GENERAL HEATING & CONTRACTING CO.	Hempstead, L. I., N. Y.	
GENERAL MAINTENANCE CORP.	Los Angeles, Calif.	
GENERAL ROOFING & PAINT CO.	Los Angeles, Calif.	
GENERAL SALES & APPLIANCE CO.	New York, N. Y.	
GEORGE, RAYMOND L.	Union City & E. Rutherford, N. J.	
GEORGE, ROBERT	Tulsa, Okla.	
GERGLEY, ANDY	Norwich, Conn.	
GIBBOUT, FRANCIS C.	Grinnell, Iowa	
GIBRALTAR BUILDERS, INC.	Los Angeles, Calif.	
GIBSON CONSTRUCTION CO.	Steubenville, Ohio	
GIBSON, JOSEPH R.	Salt Lake City, Utah	
GIBSON, ROLLIE JACK	Los Angeles, Calif.	
GIGANTI, GEORGE	Boonton, N. J.	
GILBANK, KENNETH	Boonton, N. J.	
GILBERSON, WILLIAM P.	Flint, Mich.	
GILBERT, J.	Brooklyn, N. Y.	
GILBERT, JOE W.	Yakima, Wash.	
GILBERT, MORTON	St. Louis, Mo.	
	Toledo, Ohio	
	Pensacola, Fla.	
	Dallas, Tex.	

HOUSING ACT OF 1954

1921

	ADDRESS	DATE ISSUED
ANNETTE	E. Boston, Somerville, Lawrence & North Adams, Mass.	2-3-48
URICE	E. Boston, Somerville, Lawrence & North Adams, Mass.	2-3-48
GEORGE	Brooklyn, N. Y.	11-1-46
HER	Hayti, Mo.	10-27-39
JOEY L.	Erie, Pa.	12-18-44
TYMAN	Union City, N. J. Bronx, N. Y.	1-26-51
SIDNEY	Cleveland, Ohio	3-6-46
	Palo Alto & San Jose, Calif.	7-25-41
LOUIS R.	Jersey City, N. J.	6-15-49
HARRY J.	Atlantic City, N. J.	3-25-52
LOUIS B.	Los Angeles, Calif.	10-1-51
M. A.	Evansville, Ind.	4-21-49
BERTHA	Salina, Kan.	3-10-52
LYLE M.	Salina, Kan. Oklahoma City, Okla.	3-10-52
	Denver, Colo.	
BENJAMIN	Cleveland, Ohio	2-3-48
HERALD	Los Angeles, Calif.	8-11-50
LIBUTORS	Newark, N. J.	8-24-50
TRY	Los Angeles, Calif.	9-20-51
JOE E.	Levittown, L. I., N. Y.	8-30-50
MA BARON	Levittown, L. I., N. Y.	8-30-50
WALD	Waltham, Mass.	9-28-50
SAM	Cleveland, Ohio	10-10-47
LY	Toledo, Ohio	3-1-40
ICE	Chicago, Ill.	12-28-51
	Miami, Fla.	6-17-42
WARD	Pittsburgh, Pa.	2-18-46
SEPH	Miami, Fla.	6-17-42
DE	Minneapolis, Minn.	5-7-52
ARTHUR	Chicago, Ill.	12-28-51
JOSEPH	Miami, Fla.	6-17-42
JOSEPH	Miami, Fla.	6-17-42
OLD A.	Los Angeles, Calif.	4-17-52
ILIP	Chicago, Ill.	2-27-43
IN	Louisville, Ky. Jeffersonville, Ind.	1-12-50
I.	San Antonio, Tex.	12-9-49
JAMES G.	San Antonio, Tex.	12-9-49
AND	Bronx, N. Y.	5-17-48
SEEPING SHOPS	Salt Lake City, Utah	8-16-51
WIEL	Buffalo, N. Y.	8-15-45
CECIL R.	Iowa Falls & Mason City, Ia.	12-9-52
I. S.	Santa Monica, Calif.	1-12-42
O.	Jonesboro, Ark.	6-29-51
VAN	Jonesboro, Ark.	4-11-51
X	Little Rock, Ark.	11-1-50
BIE	Los Angeles, Calif.	12-29-41
JL	Montgomery, Ala.	10-25-49
URY	E. Boston, Somerville, Lawrence & North Adams, Mass.	2-3-48
MAS	Los Angeles, Calif.	9-6-51
MAS	Johnstown, Pa.	7-18-50
ALFRED (AL)	Detroit, Mich.	5-20-52
OLD	Atlanta, Ga.	4-30-51
URAY	Bronx, N. Y.	10-29-48
GEORGE M.	Oakland, Calif.	8-28-46
ORGE	Houston, Tex.	2-3-49
EN	Brooklyn & New York, N. Y.	9-26-44
JAM T.	Los Angeles, Calif.	9-6-51
	Portland, Ore. Helena & Missoula, Mont.	2-29-52
IT H.	Great Falls, Mont.	2-21-50
BERT	Brooklyn, N. Y.	3-8-45
S HEATING AND AIR		
ITIONING COMPANY	Chicago, Ill.	10-24-51
HARRY A.	Tucson, Ariz.	7-31-40

NAME	ADDRESS	DATE
GREEN, G. E. (TED)	Salt Lake City, Utah	11
GREEN, GEORGE	New Bedford, Mass.	
GREEN, M. L.	Birmingham & Tuscaloosa, Ala.	
GREENBERG, PAUL	Williston Park, L.I., N. Y.	1
GREENELATT, BEN	Wilmington, Calif.	M
GREENE CONSTRUCTION CO.	Williston Park, L.I., N. Y.	1
GREENE, J. B.	Utah & Colo.	
GREENE, J. R.	Utah & Colo.	
GREENE, PAUL	Williston Park, L.I., N. Y.	1
GREENLY, T. F.	Pittsburgh, Pa.	1
GREGORY, W. L.	Knoxville, Tenn.	
GRIFFIN, GERALD E.	Des Moines, Iowa	
GRIFFITH & COMPANY	McComb, Miss.	
GRIGGS, WILLIAM H.	Burbank, Calif.	
GRIMES, D. S.	Los Angeles, Calif.	
GROSS, RUPERT M.	Los Angeles, Calif.	
GROSSMAN, ALBERT	Belleville, N. J. New York, N. Y.	
GUARANTEE HEATING & ROOFING CO.	Birmingham & Tuscaloosa, Ala.	
GUARANTEE HOME IMPROVEMENT CO.	Arlington, Va.	
GUARANTEED HOME MAINTENANCE CO.	Portland, Ore.	
GUERRA BROTHERS	San Antonio, Tex.	
GUERRA, E. P.	San Antonio, Tex.	
GUERRA, M. W.	San Antonio, Tex.	
GUFFEY, FRED	St. Joseph, Mo.	
GUNTHER, CARL	Baltimore, Md.	
GUNTHER HEATING CO.	Baltimore, Md.	
GUTHMAN, JACOB S.	Chicago, Ill.	
GUY DISTRIBUTING CO.	Portland, Ore.	
GUY ROSS ROOFING CO.	Portland, Ore.	
GYNN, S.	Cleveland, Ohio	

H

HAAS, HERBERT	Los Angeles, Calif.
HAAS, HERMAN B.	Spencer, Ia. Worthington, Minn.
HAGEN, HARRY	Brockton, Mass.
HAGEN, M.	Miami, Fla.
HAGER, CHARLES E.	Oil City, Pa.
HAGER, CHARLES E. (JR.)	Washington, D. C.
HAGER, F. E.	Pittsburgh, Pa.
HAGGSTROM, ELSIE	N. Hollywood, Calif.
HAGIN, M.	Miami, Fla.
HAHN, NORMAN	Omaha, Neb.
HAIMOVITZ, PAUL	Tampa, Fla.
HALFF, CHARLIE	San Antonio, Tex.
HALL, ARTHUR (ARA)	San Antonio, Tex.
HALL, EARL	Rochester, N. Y.
HALLER, FLOYD S.	St. Louis, Mo.
HALPRIN, SOL	Norfolk, Va.
HAMILL, JOSEPH	Detroit, Mich.
HAMILL, NORMAN J.	Los Angeles, Calif.
HAMLIN, W. B.	Houston, Tex.
HAMMOND, VICTOR	Hollywood, Calif.
HAND, E. J.	Houston, Tex.
HANDLER, MORRIS	Mobile, Ala. Biloxi & Meridian, Miss.
HANSEN, JOE	Palo Alto & San Jose, Calif.
HANSON, WILLIAM	Portland, Ore.
HAPGOOD, JACK	Portland, Ore. Spokane, Wash.
HARDING HEATING CO.	Nashville & Chattanooga, Tenn.
HARDING, SAMUEL E.	Nashville & Chattanooga, Tenn.
HARDMAN, L. W.	Reading, Pa.
HARDMAN, RICHARD N.	Reading, Pa.
HARDY, S. C.	Stockton, Calif.
HARMON, E. V. (JR.)	San Antonio, Tex.
HARMON, HIERO H.	Gardena, Calif.
HARPER HEATING & IMPROVEMENT CO.	Detroit, Mich.
HARRELL, J. E.	Memphis, Tenn.

HOUSING ACT OF 1954

1923

	ADDRESS	DATE ISSUED
N BROTHERS & CO.	Boston, Mass.	9-29-48
N, MICHAEL	Boston, Mass.	9-29-48
N, WILLIAM	Boston, Mass.	9-29-48
BORGE	Norfolk, Va.	1-16-45
ARRY	Rockaway, N. J.	6-24-44
OSEPH	Rockaway, N. J.	6-24-44
OSEPH & SONS, INC.	Rockaway, N. J.	6-24-44
LEON A.	Montclair N. J.	8-11-45
S. W.	Miami, Fla.	8-26-52
ACKSON	Los Angeles, Calif.	3-2-49
RIES	Bowling Green & Perryburg, Ohio	7-6-41
NARD	Portland, Ore.	11-17-41
CONSTRUCTION CO.	Louisville, Ky.	1-12-50
JOSEPH MILTON	Louisville, Ky.	1-12-50
IRVING P.	Louisville, Ky. Chicago, Ill.	5-20-47
	Houston, Tex.	
JACK (P)	Chicago, Ill. Houston, Tex.	1-31-51
H.	N. Hollywood, Calif.	7-26-51
URNACE CO.	Iowa Falls, Ia.	12-9-52
EDWARD C.	Chelsea, Mass.	5-20-48
BORGE A.	Syracuse & Watertown, N. Y.	11-16-42
HARLES	Indianapolis, Ind.	4-21-50
ACK	El Monte, Calif.	3-23-42
SON PLUMBING CO.	Indianapolis, Ind.	4-21-50
	Miami, Fla.	2-11-52
ROBERT	Portland, Ore. Spokane, Wash.	10-29-51
BERT A.	Tucson, Ariz.	7-31-40
ERALD F.	Medford, Ore.	10-25-49
. W.	Knoxville, Tenn.	8-13-47
LIP CONSTRUCTION CO.	Miami, Fla.	6-17-42
MES	Hillside, N. J.	3-22-41
FRIGERATION CORP.	Brooklyn, N. Y.	6-27-50
OZA	Biloxi, Miss.	7-21-50
JAMES (JIM)	Des Moines, Ia.	4-16-52
PAUL	Buffalo, N. Y.	11-15-51
ALLEN	Lexington, Mass.	12-23-41
. P. M.	Flint, Mich.	1-27-49
UGENE J.	Pennsauken, N. J.	6-9-52
GEORGE	Los Angeles, Calif.	9-7-51
JACK	Los Angeles, Calif.	11-7-50
. F.	San Antonio & Houston, Tex.	3-9-42
J. F.	Los Angeles, Calif.	4-16-52
PAUL	Columbus, Ohio	1-18-52
H.	San Antonio, Tex.	3-7-40
PAINT & WALL PAPER CO.	San Antonio, Tex.	3-7-40
CATHERINE ALICE	Louisville, Ky.	9-14-50
. E.	Lytle, Tex.	5-6-42
ENRY W.	Valley Stream, L. I., N. Y.	9-9-48
ENRY W.	Woodmere, L. I., N. Y.	2-2-50
ILLIAM	Detroit, Mich.	9-29-50
JOHN	Rockaway & Newark, N. J.	6-24-44
MAJOR PAUL	Laguna Beach, Calif.	3-6-41
WARD J.	Massillon, Ohio	8-31-51
D. E.	Buffalo, N. Y.	7-15-47
N	Jonesboro, Ark.	6-29-51
	Portland, Ore.	12-3-41
. D.	Atlanta, Ga.	1-17-41
. J.	Oakland, Calif.	1-10-42
LFRED	Pittsburgh, Pa.	11-29-45
N, ALFRED	Pittsburgh, Pa.	11-29-45
FRANK C.	Camden, N. J.	7-26-39
OLD	S. Portland, Me.	1-8-48
. F. (JR.)	Indianapolis, Ind.	4-1-48
. F. (SR.)	Indianapolis, Ind.	4-1-48
. F. FURNACE CO.	Indianapolis, Ind.	4-1-48
W.	San Antonio, Tex.	11-28-52

NAME	ADDRESS	City
HOFF, WILLIAM	Buffalo, N. Y.	Buffalo, N. Y.
HOFFMAN, DAVIS	Los Angeles, Calif.	Los Angeles, Calif.
HOFFMAN, DAVID & CO.	Los Angeles, Calif.	Los Angeles, Calif.
HOFFMAN, WILLIAM H.	Miami, Fla.	Miami, Fla.
HOGAN, JOHN	Appleton, Wis.	Appleton, Wis.
HOLDEN, W. A.	Dallas, Tex.	Dallas, Tex.
HOLLYWOOD HOME IMPROVEMENT CO.	E. Detroit, Mich.	E. Detroit, Mich.
HOLMES, MURRAY M.	Richmond Hill, N. Y.	Richmond Hill, N. Y.
HOLT, BEN	Texarkana, Ark.	Texarkana, Ark.
HOLT BUILDING & IMPROVEMENT CO.	Houston, Tex.	Houston, Tex.
HOLT DEVELOPING CO.	Texarkana, Ark.	Texarkana, Ark.
HOLT, WHEELER M.	Houston, Tex.	Houston, Tex.
HOLTON, W. L.	Portland, Ore.	Portland, Ore.
HOLTON, WILLIAM M.	Cuddy, Pa.	Cuddy, Pa.
HOLZMAN, MURRAY	Richmond Hill, N. Y.	Richmond Hill, N. Y.
HOME BEAUTIFIERS COMPANY	Brockton & S. Weymouth, Mass.	Brockton & S. Weymouth, Mass.
HOME BEAUTIFUL, INC.	Cranston, R. I.	Cranston, R. I.
HOME COMFORT INSULATION CO.	Des Moines, Ia.	Des Moines, Ia.
HOME CONSTRUCTION CO.	Georgetown, Ohio	Georgetown, Ohio
HOME-CRAFT PRODUCTS CO., INC.	Indianapolis, Ind.	Indianapolis, Ind.
HOME EQUIPMENT CO.	Levittown, L. I., N. Y.	Levittown, L. I., N. Y.
HOME IMPROVEMENT CO.	Houston, Tex.	Houston, Tex.
HOME IMPROVEMENT CO.	Birmingham, Ala.	Birmingham, Ala.
HOME IMPROVEMENT CO.	Muskogee, Okla.	Muskogee, Okla.
HOME IMPROVEMENT CO. OF OKLAHOMA	Duncan & Marlow, Okla.	Duncan & Marlow, Okla.
HOME IMPROVEMENT SERVICE	Lake Charles, La.	Lake Charles, La.
HOME IMPROVEMENT & SUPPLY CO.	Jeffersonville, Ind.	Jeffersonville, Ind.
HOME INSULATION CO.	Tulsa, Okla.	Tulsa, Okla.
HOME INSULATION CO.	Mt. Vernon, Cairo, Ill.	Mt. Vernon, Cairo, Ill.
HOME INSULATION MANUFACTURING CO.		
INC. (THE)		
HOME INSULATION AND WEATHERSTRIP	Long Beach, Calif.	Long Beach, Calif.
CO. INC.		
HOME MODERNIZATION & IMPROVEMENT CO.	Long Beach, Calif.	Long Beach, Calif.
HOME OWNERS CONSTRUCTION CO.	Los Angeles & North Hollywood, Calif.	Los Angeles & North Hollywood, Calif.
HOME OWNERS MODERNIZATION CO.	Brookline, Mass.	Brookline, Mass.
HOME OWNERS' SERVICE COMPANY	San Diego, Calif.	San Diego, Calif.
HOME OWNERS SUPPLY CO.	Dallas, Tex.	Dallas, Tex.
HOME SALES CO.	San Diego, Calif.	San Diego, Calif.
	Tuscaloosa & Bessemer, Ala.	Tuscaloosa & Bessemer, Ala.
	Atlanta, Ga.	Atlanta, Ga.
MSIER ROOFING & SIDING CO.	Indianapolis, Ind.	Indianapolis, Ind.
KNIS COMPANY (THE)	Washington, D. C.	Syracuse, New York
RYCHARD PAUL	Washington, D. C.	Syracuse, N. Y.
M.	West Haven, Conn.	West Haven, Conn.
	Newark, N. J.	Newark, N. J.
	San Diego, Calif.	San Diego, Calif.
	Seattle, Wash.	Seattle, Wash.
ARTHUR N.	Philadelphia, Pa.	Philadelphia, Pa.
C. F.	Greenville, S. C.	Greenville, S. C.
C. F. ROOFING CO.	Greenville, S. C.	Greenville, S. C.
CLAIR V.	Hyattsville & Mt. Rainier, Md.	Hyattsville & Mt. Rainier, Md.
DERYL N.	San Antonio, Tex.	San Antonio, Tex.
EMERSON	Sapulpa, Okla.	Sapulpa, Okla.
CONSTRUCTION CO.	San Pedro, Calif.	San Pedro, Calif.
W.	San Pedro, Calif.	San Pedro, Calif.
LEONARD	LaCrosse, Wis.	LaCrosse, Wis.
W. BRYAN	Grinnell, Iowa	Grinnell, Iowa
CONSTRUCTION CO.	Dorchester, Mass.	Dorchester, Mass.
MAN, LOUIS	Newark, N. J.	Newark, N. J.
TH R T G.	Los Angeles, Calif.	Los Angeles, Calif.
CO.	North Bergen, N. J.	North Bergen, N. J.
	Tuskegee, Ala.	Tuskegee, Ala.
	San Jose, Calif.	San Jose, Calif.
	Rigby, Idaho	Rigby, Idaho
	Los Angeles, Calif.	Los Angeles, Calif.
	E. Orange, N. J.	E. Orange, N. J.

HOUSING ACT OF 1954

1925

	ADDRESS	DATE ISSUED
WARD	Newark, N. J.	8-31-49
Y B.	Omaha, Neb.	9-1-48
BERT	Tuscaloosa, Ala.	11-4-48
ES COMPANY (THE)	Tuscaloosa, Ala.	11-4-48
ULATION CO.	Lyndhurst, N. J.	9-28-44
LATION CO.	Lyndhurst, N. J.	9-28-44
I		
ING CO.	Steubenville, Ohio	6-16-52
ATERIALS CO.	Medford, Ore.	10-25-49
NSTRUCTION CO.	Indiana, Pa.	12-15-49
HEATING & AIR CONDITION-		
	Topeka, Kan.	3-3-48
ILES	Covington, Ohio	1-7-48
N & SON	Covington, Ohio	1-7-48
STRUCTION CO.	Gary, Ind.	2-2-42
CORPORATION	Jamaica, N. Y.	7-27-51
DUCTS, INC.	Chicago, Ill.	12-28-51
& APPLIANCE CO.	Hattiesburg, Miss.	6-30-48
CO. OF NEW ENGLAND, INC.	Norwalk, Conn. White Plains, N. Y.	12-11-51
E WINDOW CO.	Bay City Mich.	6-29-48
NAL HEATING CO.	Cleveland, Ohio	3-10-48
NAL INSULATION CO.	Boise Idaho	5-23-47
CONSTRUCTION CO.	Cambridge, Mass.	6-30-52
PLASTIC TILE, INC.	Pittsburgh, Pa.	10-13-48
ROOFING & SIDING CO.	Atlanta, Ga.	11-14-50
RAGE CO.	Des Moines, Iowa	4-12-49
IMPROVEMENT CO.	Des Moines, Iowa	11-30-50
PH	Brooklyn, N. Y.	4-8-42
H.	Seattle, Wash.	1-21-53
MAX (MARK, MACK, MICHAEL)	Irrington, N. J.	2-28-41
R.	Brooklyn, N. Y.	3-20-42
HALT ROOFING CO. (THE)	Coram, N. Y.	8-11-50
J		
DEERS	Columbus, Ohio	5-29-52
BING & HEATING CO.	Philadelphia, Pa.	11-29-51
NE	Chicago, Ill.	11-29-45
NSTRUCTION CO.	Detroit, Mich.	11-1-45
ARRY	Cincinnati, Ohio	9-11-50
ENNETH C.	San Antonio, Tex.	11-28-52
STER FIRE & BURGLAR		
MPANY, INC.	Cincinnati, Ohio	9-11-50
CHARLES	Los Angeles, Calif. Miami, Fla.	3-18-42
WILLIAM M.	Los Angeles, Calif. Helena, Mont.	8-9-40
PAUL	Detroit, Mich.	7-14-50
ORGE	Tacoma, Wash.	12-9-52
E. & H. INC.	Brooklyn, N. Y.	3-20-42
OHN	Los Angeles, Calif.	4-16-52
AC	Atlanta, Ga.	4-17-52
ARMEN J.	Chicago, Ill.	1-31-51
OBERT K. (MRS.)	Tallahassee, Fla.	4-4-52
ILES	Miami, Fla. Los Angeles, Calif.	3-18-42
ME APPLIANCE CO.	Philadelphia, Pa.	6-27-50
ME IMPROVEMENT CO.	Philadelphia, Pa.	6-27-50
ING & SUPPLY CO.	Sturgis, Mich.	10-17-52
NG CO.	Rochester, N. Y.	2-21-50
NET) ABE	Pittsburgh, Pa.	10-13-48
NET) ADELINE	Pittsburgh, Pa.	10-13-48
C.	Houston, Tex.	3-5-43
SALVATORE	Brooklyn, N. Y.	5-12-47
. C.	Dallas, Tex.	12-28-51
PLIANCE & FURNITURE CO.	Little Rock, Ark.	8-20-52
ARTHUR	Vancouver, Wash.	12-11-41
BESTOS CO.	W. Palm Beach, Fla.	12-28-51
UGUST	Stockton, Calif.	8-8-41

NAME	ADDRESS	DATE
JOHNSON, CHARLES, J.	W. Palm Beach, Fla.	
JOHNSON, FLOYD H.	Little Rock, Ark.	
JOHNSON, GEORGE R.	Newark, N. J.	
JOHNSON, J. D.	Camden, N. J.	
JOHNSON, JACK	Portland, Ore.	
JOHNSON, JAMES	Birmingham, Ala.	
JOHNSON, L. D.	W. Palm Beach, Fla.	
JOHNSON, LARRY E.	Jacksonville, Fla. Brockton, Mass.	
JOHNSON, ROBERT	Providence, R. I.	
JOHNSTON TERMITES CO.	Clawson, Mich.	
JOHNSTON, W. J. (JR.)	Montgomery, Ala.	
JOLLEY, SIDNEY R.	Montgomery, Ala.	
JONES, CHARLES	Central Valley, Calif.	
JONES CONSTRUCTION CO.	St. Louis, Mo.	
JONES, HARRY H.	Canonsburg, Pa.	
JONES, J. EDWARD	New Hartford, N. Y.	
JONES, MORGAN I.	Los Angeles, Calif.	
JONES, R. V.	Canonsburg, Pa.	
JONES, RALPH	Jasper, Tex.	
JORDAN, J. PAUL	Jackson, Tenn.	
JOYCE, CHARLES	Detroit, Mich.	
JOYCE FENCE COMPANY	St. Louis, Mo.	
JUPP, WALTER H.	Washington, D. C.	
	Milwaukee, Wis.	
K		
KAHLER, HARRY C.	Pottsville, Pa.	
KAIMOTH, ROSE OCHER MICHAELS	Chicago, Ill.	
KAIN, HARRY	Chicago, Ill. Houston, Tex.	
KAINRATH, JOSEPH	Chicago, Ill.	
KAISER CONTRACTING CO.	Lidgerwood, N. D.	
KAISER, GILBERT	Los Angeles, Calif.	
KAISER, M. E.	Lidgerwood, N. D.	
KAISER, R. P.	Lidgerwood, N. D.	
KALAMAZOO SALES & SERVICE CO.	Cambridge, Mass.	
KALMANS, MAURICE A.	New Britain, Conn.	
KANDEL, S. K.	Newark, N. J.	
KANE, EARL H.	Norwich, Conn.	
KANE, HARRY	Chicago, Ill. Houston, Tex.	
KANE HOME IMPROVEMENT CO.	Norwich, Conn.	
KANOIL INCORPORATED	Brooklyn, N. Y.	
KANTER, RUBIN	W. Los Angeles, Calif.	
KANTOR, HARRY	Brooklyn, N. Y.	
KANTOR, SAMUEL	Brooklyn, N. Y.	
KANVASSER, LOU H.	Los Angeles, Calif.	
KAPLAN, EDDIE	Omaha, Neb.	
KAPLAN, IRVING L.	W. Hempstead & Flushing, N. Y.	
	Fairfield, Conn.	
KAPLAN, ISIDORE	W. Hempstead & Flushing, N. Y.	
	Fairfield, Conn.	
KAPLAN, MARTIN	Flushing, N. Y.	
KAPLAN, WILLIAM	Brooklyn, N. Y.	
KAPLOW, ROBERT	Newark, N. J.	
KARABELNICK, AARON L.	St. Clair Shores & Detroit, Mich.	
KARABENICK, GEORGE	St. Clair Shores & Detroit, Mich.	
KARBULET, HARRY	Los Angeles, Calif.	
KARR, A. M.	Atlanta, Ga.	
KARR, JACK L.	Atlanta, Ga.	
KARR, MAURICE M.	Atlanta, Ga.	
KARTUB, NATHAN C.	McKeesport, Pa.	
KASZUBSKI, LOUIS	Staten Island, N. Y.	
KATZ CONSTRUCTION CO.	Chicago, Ill.	
KATZ, JACK CONSTRUCTION CO.	Dallas, Tex.	
KATZ, SOL	Chicago, Ill.	
KAY, DANIEL	Newark, N. J.	
KAY, J. E.	Charleston, W. Va.	

HOUSING ACT OF 1954

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	ADDRESS	DATE ISSUED
	Charleston, W. Va.	3-25-48
	Irvington, N. J.	3-11-40
	Charleston, W. Va.	3-25-48
ACE & SUPPLY CO.	North Hollywood & Los Angeles, Calif.	6-2-50
HN HENRY	Toledo, Ohio	11-6-47
RY L.	Taunton, & Fall River, Mass.	2-13-40
AUL R.	Union City & E. Rutherford, N. J.	12-28-51
TIN E.	East Orange, N. J.	7-29-46
IN P.	Fort Wayne, Ind.	1-22-47
F.	Fort Wayne, Ind.	1-22-47
F. COMPANY	Portland, Ore.	1-27-50
J.	Oakland, Calif.	12-14-49
RL	Oakland, Calif.	12-14-49
MES E.	Birmingham & Tuscaloosa, Ala.	1-6-49
MES E. (PETE)	Cleveland, Ohio	1-3-49
S. COMPANY	Malden, Mass.	11-22-46
WIN D.	Washington, D. C.	4-23-48
RY	Montclair, N. J.	11-15-41
H.	Arcadia, Ind.	7-9-40
JOHN L.	Chicago, Ill.	1-23-42
H. (SOL)	Chicago, Ill. Atlanta, Ga.	10-9-42
D	Charlotte, N. C.	11-30-45
ERT L.	Buffalo, N. Y.	8-17-50
TH, O. E.	Goodwater & Alexander City, Ala.	2-29-52
ROSS	Tulsa, Okla.	7-21-49
	St. Louis, Mo.	7-21-49
CONTRACTING CO.	St. Louis, Mo.	12-11-41
N	Yakima, Wash.	1-3-49
RT A.	New Orleans, La.	1-3-49
RT COMPANY	New Orleans, La.	2-28-51
MARVIN	E. St. Louis, Ill.	1-23-45
J.	New York, Brooklyn & Eureka, N. Y.	5-21-42
	Houston, Tex	2-28-51
G & SIDING CO.	E. St. Louis, Ill.	1-23-45
ITY COMPANY	New York, N. Y.	7-25-50
	Evansville, Ind. St. Louis, Mo.	6-29-51
	Jonesboro, Ark.	5-7-52
	Minneapolis, Minn.	4-8-42
NRY W.	Neptune, N. J.	8-16-51
IE R. (MRS. PAUL C.)	Buffalo, N. Y.	8-16-51
C.	Buffalo, N. Y.	3-29-49
E E.	Georgetown, Ohio	2-7-47
BERT E.	Columbus & Dayton, Ohio	2-1-49
	Kansas City, Mo.	3-14-49
RE (JACK)	Fort Wayne, Ind.	9-20-51
A.	Kansas City, Mo.	4-16-51
B.	Los Angeles, Calif.	10-9-39
A. & ASSOCIATES	Milwaukee, Wis.	1-30-42
	Paterson, N. J.	10-8-52
J.	Gardena, Calif.	10-8-52
IMPROVEMENT CO.	Gardena, Calif.	7-19-40
	Newark & Atlanta City, N. J. Philadelphia, Pa.	5-12-47
NLEY	Brooklyn, N. Y.	11-15-51
D	Des Moines, Iowa	3-11-40
UIS	Irvington, N. J.	10-19-39
RGE	New York, N. Y.	10-30-41
N PAUL	Chicago, Ill. Gary, Ind.	9-12-44
BERT	Bogota, N. J.	2-29-52
ON A.	Youngstown, Ohio Boston, Mass.	12-28-51
ACK C.	Union City & E. Rutherford, N. J.	11-23-51
ENT I.	Columbus, Ohio	12-22-48
LEONARD	Oil City Pa.	4-20-50
EY	Butler, Pa.	10-9-44
RRY	New York, N. Y.	10-13-47
LPH	Wilmington, Calif.	10-13-47
LPH CONSTRUCTION CO.	Wilmington, Calif.	10-31-46
FRED	Bayonne, N. J.	

NAME	ADDRESS	DATE
L		
L & R CONSTRUCTION CO.	Cleveland, Ohio	
LACHER, RICHARD	W. Terre Haute, Ind	
LACKEY, WILLIAM	Plattsburg, N. Y.	
LACLEDE COMPANY (THE)	St. Louis, Mo.	
LaCOCK, HENRY M.	Los Angeles, Calif.	
LaFLAIR, GEORGE	Chicago, Ill.	
LaFLAIR IMPROVEMENT CO.	Chicago, Ill.	
LaFONTAINE, JOSEPH R.	Rochester, N. Y.	
LAKE, C. E.	Houlton, Me.	
LAKE, C. E. MODERNIZING CO.	Houlton, Me.	
LAKE, DAVID	Boise, Idaho	
LAKESWOOD HOME MODERNIZERS	Lakewood, N. J.	
LALLOR, (LOLLOR) J. B.	Tampa, Fla.	
LALLOR, JAMES B.	Colchester, Conn.	
LANCE, ROY J.	Birmingham, Ala.	
LANG, A. P.	Houston, Tex.	
LANG, JOHN A.	Brooklyn & New York, N. Y.	
LANG, ROBERT H.	Homestead, Pa.	
LANGNER, BERT	Phoenix, Ariz.	
LANGHAM, HYMAN W.	Los Angeles, Calif.	
LANGNER, (LANGSEN) MORTON	Newark, N. J.	
LANGNER, (LANGSEN) WILLIAM	Newark, N. J.	
LANNING, CHARLES F	Philadelphia, Pa.	
LAPERT, OTTO	St. Louis, Mo.	
LAPERT SHEET METAL WORKS	St. Louis, Mo.	
LaPOINT, HARVEY	Schuyler Lake & New Hartford, N. Y.	
LARKIN, LEONARD M.	Queens Village, L. I., N. Y.	
LARNARD, RAY R.	Houston, Tex.	
LaROACH, WILLIAM	Philadelphia, Pa.	
LARSON, CLYDE W.	Rhineland, Wis.	
LARSON, L.	Kansas City, Mo.	
LARSON, RANDY J.	Rhineland, Wis.	
LARSON, WILLIAM A.	Rhineland, Wis.	
LATIMER, K. P.	Jackson, Miss	
LAVIN, FRANCIS J.	Providence, R. I.	
LAVIN, GREGORY S.	Mobile, Ala. Biloxi & Meridian, Miss	
LAVIN, MARVIN	Miami Beach, Fla.	
LAWRENCE, L.	Los Angeles, Calif	
LAWRENCE, RAY V.	Des Moines, Iowa	
LAWRENSON, CHARLES E.	Washington, D. C.	
LAWSON, VINCENT	Houston, Tex	
LEAL, TED	Coffeyville, Kan.	
LEDIG, FRED	Newark, N. J.	
LEE, GEORGE EDWARD	Houston, Tex.	
LEER, SIDNEY H.	North Hollywood, Calif.	
LEBCH, CHARLES	North Bergen, N. J.	
LEHMAN, HERBERT	Bay City, Mich.	
LEIGH, RICHARD	New York, Brooklyn & Eureka, N. Y.	
LEISTER, GUY J.	Baltimore, Md.	
LEMMER, JOHN W.	N. Hollywood, Calif.	
LEPORE, JOSEPH A.	Brooklyn, N. Y.	
LEPOW, SAMUEL E.	Miami, Fla.	
LEPPE-ERMAN	St. Louis, Mo.	
LEPPE, FRED	St. Louis, Mo.	
LEPNER, ISADORE	Gary, Ind.	
LeROY ASBESTOS CO.	Miami & W. Palm Beach, Fla	
LeROY N. C.	Miami & W. Palm Beach, Fla.	
LeSHUFFY, ALBERT	Seaford & Brooklyn, N. Y.	
LESTER, HOOGE SIMS	Houston, Tex.	
LESTER, SIMS	Houston, Tex.	
LEVENSON, S. C.	Glendale, Calif.	
LEVENTHAL, PHILIP	Irvington, N. J.	
LEVINE, JACK	Brooklyn, N. Y.	
LEVY, JOSEPH E.	Chicago, Ill	

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	ADDRESS	DATE ISSUED
	Syracuse, N. Y.	10-9-42
	DeFuniak Springs, Fla.	10-17-51
	East Orange, N. J.	7-18-50
	Inglewood, Calif.	11-20-51
ILDERS, INC.	Brooklyn, N. Y.	9-8-50
E.	Kansas City, Kan.	9-15-41
	Cincinnati, Ohio	1-16-48
	Springfield, Mass.	11-9-50
ANCES J.	Los Angeles, Calif.	2-27-48
HARRY	Portland, Ore.	6-26-46
SEPH (JOE)	Los Angeles, Calif.	2-3-50
NNETH	Los Angeles, Calif.	2-3-50
UCTS, INC.	New York, N. Y.	9-20-49
GARET	Goodwater & Alexander City, Ala.	8-17-50
S CO.	Houston, Tex.	1-30-50
D W.	Houston, Tex.	1-30-50
CE	Houston, Tex.	1-30-50
(RED)	Houston, Tex.	1-30-50
V.	Los Angeles, Calif.	11-21-51
E	Chicago, Ill.	2-27-43
RT R.	Los Angeles, Calif.	3-2-49
ERS	Canton, Ohio	1-9-47
.	Portland, Ore.	11-9-50
.	Portland, Ore.	11-9-50
ILLIAM	Lynbrook, N. Y.	3-31-49
.	Houston, Tex.	11-12-48
RUCTION CO.	S. Portland, Me. Malone, Plattsburg & Cape Elizabeth, N. Y.	1-8-48
C.	S. Portland, Me. Malone, Plattsburg & Cape Elizabeth, N. Y.	1-8-48
..	Columbus, Ohio	7-18-50
	Yakima, Wash.	12-11-41
	Yakima, Wash.	12-11-41
	Des Moines, Iowa	8-10-51
R E.	Birmingham, Ala.	2-14-47
	Brooklyn, N. Y.	1-31-49
IDORE	W. Hempstead & Flushing, N. Y.	7-26-45
	Fairfield, Conn.	
	Bakersfield, Calif.	10-8-52
	Los Angeles, Calif.	8-20-48
ALTER D.	Jamaica, N. Y.	4-19-48
LOYD	San Francisco Calif.	7-20-41
I. C.	Glenda e. Cal f.	11-8-50
CTION CO., INC.	W. Hollywood & Oakland, Calif.	11-21-51
LES A.	Bethpage & Babylon, N. Y.	6-16-52
RUCTION CO.	Bethpage & Babylon, N. Y.	6-16-52
RED (JH.)	New Orleans La.	8-18-48
E.	De roit, Mich.	2-10-45
I H.	Brooklyn, N. Y.	2-17-47
W). J. B.	Tampa, Fla.	1-18-52
(JACK)	Dayton, Ohio	10-21-48
THONY	Rochester, N. Y.	11-7-50
	Brooklyn & Long Island, N. Y.	12-12-46
WILDERS, INC	Los Angeles, Calif.	6-17-49
ERMA-STONE CO.	Los Angeles, Calif.	3-2-49
IKOTE CO.	Louisville, Ky.	6-27-49
L.	Toronto, Ohio	7-15-47
	Trion, Ga.	8-5-42
N.	W. Los Angeles, Calif.	11-21-51
	Los Angeles, Calif.	6-23-41
ISES	Los Angeles, Calif.	10-1-51
MERCHANDISING CO. INC.	Rochester, N. Y.	6-29-51
E & LUMBER CO.	Rochester, N. Y.	6-29-51
PANY	Portland, Ore. Spokane, Wash.	11-30-51
INCORPORATED	Portland, Ore. Spokane, Wash.	12-28-51
I J	Hempstead, N. Y.	2-28-51

NAME	ADDRESS	DATE
M		
MACCHOINE, LOUIS A.	Oil City, Pa.	1
MacDONALD, P. RANOLD II	Jacksonville, Fla. Houston, Tex.	1
MacDONALD, HARRY	Chicago, Ill.	1
MACHESNEY, ROY H.	Pittsburgh, Pa.	1
MacINTOSH, WILLIAM E.	Worcester, Mass.	
MACKAY, Z. J.	Phoenix, Ariz.	
MACLEOD, ALEX	Detroit, Mich.	
MacSTARK BUILDING ENGINEERING CO.	Richmond Hill, N. Y.	1
MacSTARK, CHARLES	Richmond Hill, N. Y.	1
MADDEN, LAWRENCE	Brooklyn, N. Y.	
MADISON CONSTRUCTION CO.	Chicago, Ill.	
MADISON, CYRIL L.	Washington, D. C.	
MAGAZINE LUMBER CO.	Bogalusa, La.	1
MAGER, T. J.	Chicago, Ill.	
MAGER, T. J. & SONS, CO.	Chicago, Ill.	
MAHER, FRANK	Clayton, Mo.	
MAHKORN, JACK	San Antonio, Tex.	
MAIER, GEORGE	Pasco, Wash.	
MAITH COMPANY	Philadelphia, Pa.	
MAITH ENGINEERING CO.	Philadelphia, Pa.	
MAITH ENGINEERING & EQUIPMENT CO.	Philadelphia, Pa.	
MAITH, ROBERT A.	Philadelphia, Pa.	
MAJESTIC HOME IMPROVEMENT CO.	Los Angeles, Calif.	
MAJOR HOME EQUIPMENT CO.	Manchester, N. H.	
MAJOR, LOUIS J.	Manchester, N. H.	
MALKOFF, MAX	Baltimore, Md. Reading Pa.	
MANDERVILLE, EARL	Troy, N. Y.	
MANFREDI, JOSEPH	New York, N. Y.	
MANGOLD, JOSEPH C.	Los Angeles, Calif.	
MANHEIM, S. W.	Cleveland Heights, Ohio	
MANHEIM, S. W. COMPANY	Cleveland Heights, Ohio	
MANHOLD, MAX S.	Mt. Clemens, Mich.	
MANLEY, ROBERT Q.	Pomona, Calif.	
MANNING ELECTRIC CO.	Corpus Christi, Tex.	
MANNING, H.	Bronx & New York, N. Y.	
MANNING, I. T.	Corpus Christi, Tex.	
MANUFACTURERS' SALES & SERVICE CO.	Philadelphia, Pa.	
MARCHANT, GEORGE	Detroit, Mich.	
MARCO, WILLIAM	Detroit, Mich.	
MARCUS, JEROME H.	Philadelphia, Pa.	
MARCUS, WILLIAM	Detroit, Mich.	
MARCY, LOUIS G.	Bronx, N. Y.	
MARGRAF, ARTHUR E.	Cape May, N. J.	
MARIEM (MARIAM) LOU	Portland, Ore. Los Angeles, Calif.	
MARINE CONSTRUCTION CO.	Detroit, Mich.	
MARK, RAYMOND (RAY)	Steubenville, O.	
MARKOWITZ, WILLIAM	Buffalo, N. Y. Detroit, Mich.	
MARKS, M.	Nutley, N. J.	
MARKS, ROBERT A.	Columbus, Ohio	
MARKS, SAM	North Bergen, N. J.	
MARKS, SAMUEL	Jackson Heights, N. Y.	
MARKSVILLE, JEANETTE	New York, N. Y.	
MARKSVILLE, PERRY	New York, N. Y.	
MARKSVILLE, PIERCE	New York, N. Y.	
MARLEN HOME REMODELING CO.	Lawrence & Cambridge, Mass. Auburn, Me.	
MARLEN, JOSEPH	Lawrence, Mass.	
MARLOWE, EDWARD H.	San Antonio, Tex.	
MARR, C. ED	Pensacola, Fla.	
MARRONE, MICHAEL	Fitchburg, Mass.	
MARSH, B. W.	Los Angeles, Calif.	
MARSHAK, BEN	Birmingham, Ala.	
MARSHAK, GERALD S.	Birmingham, Ala.	
MARSHALL, BEN	Portland, Ore.	
MARSHALL HATCHERY	Marshall, Ill.	

HOUSING ACT OF 1954

1931

	ADDRESS	DATE ISSUED
NETT	Van Nuys, Calif.	4-17-52
STRUCTION CO.	Cleveland, Ohio	2-3-48
I	Goose Creek, Tex.	7-10-40
IE (MRS. GEO.)	Detroit, Mich.	1-14-47
SS A.	Oil City, Pa.	7-25-47
	Miami, Fla.	6-17-42
V	Absecon, N. J.	11-21-48
YD	Portland, Ore.	11-29-51
ERT H.	Minneapolis, Minn.	10-10-45
OMAS	Bronx, N. Y. N. Y.	12-19-47
AM	Buffalo, N. Y.	8-8-50
IMPROVEMENT CO.	Johnson City, N. Y.	3-29-48
ISAAC	Johnson City, N. Y.	3-29-48
	Chicago, Ill.	10-24-51
PRISES	Pittsburgh, Pa.	7-16-47
IT	Pittsburgh, Pa.	7-16-47
	Orlando, Fla.	1-10-49
AS	Plymouth, Mich.	10-28-42
	Minneapolis, Minn.	9-12-44
IE IMPROVEMENT CO.	Los Angeles, Calif.	5-1-52
NK	Charleston, W. Va.	1-7-44
	Bossier City La. Houston, Tex.	3-30-51
EPH	Riverside, Cal f.	7-9-41
RIO M.	Brooklyn, N. Y.	5-12-47
UL	Spartansburg, S. C.	10-9-42
	Portland, Ore. Spokane, Wash.	11-30-51
SE	Houston, Tex.	11-29-51
(Initials Unknown)	Baltimore, Md. Reading, Pa.	3-12-48
TING & ROOFING CO.	Buffalo, N. Y.	7-2-45
HN T.	Buffalo, N. Y.	7-2-45
YMOND A.	Hattiesburg, Miss.	6-30-48
ENE J.	Chicago, Ill.	1-6-47
MAS D.	Chicago, Ill.	1-6-47
EWY J.	Oakland, Calif.	8-28-46
GRAFFPORT	Oakland, Calif.	8-28-46
JOHN W.	Des Moines, Iowa	8-10-51
ONSTRUCTION CO.	Coram, N. Y.	8-11-50
MALCOLM W.	Coram, N. Y.	8-11-50
ANK J. (BERNIE) MRS.	Portland, Ore. Spokane, Wash.	11-30-51
S. D.	Stockton, Calif.	10-3-46
S. V.	Charleston, W. Va.	6-2-39
N. J. COMPANY, INC.	St. Louis, Mo. Indianapolis, Ind.	11-3-49
WALTER J.	St. Louis, Mo. Indianapolis, Ind.	11-3-49
. S. (JR)	Gainesville, Deland, Fla.	10-22-48
. S. (SR)	Gainesville, Deland, Fla.	10-22-48
. C.	Oakland, Calif.	1-10-42
AVID E.	Wenonah & Pitman, N. J.	6-4-43
ILLIAM E.	Woodbury & Wenonah, N. J.	6-4-43
	Los Angeles, Calif.	6-29-51
RUDE E.	Pittsburgh, Pa.	7-16-46
ALBERT	Philadelphia, Pa.	11-5-48
OMPANY	Philadelphia, Pa.	11-5-48
OSEPH R.	Louisville, Ky.	9-14-50
NSTRUCTION CO., INC.	New York, N. Y.	5-17-48
HOMAS	Bronx, N. Y.	5-17-48
W.	N. Hollywood, Calif.	11-21-51
	Spencer, Ia.	4-29-52
KANNA) JAMES J.	Rochester, N. H.	2-15-40
HOWARD C.	Dearborn, Mich.	6-19-47
JOHN M.	Brighton, Mass.	11-21-51
EO T.	N. Hollywood Calif.	11-21-51
	Rochester N. Y.	11-7-50
OHN	New Hampton, N. Y.	2-19-51
AWRENCE	Malverne, N. Y.	12-27-46
MPANY	Studio City, Calif.	8-28-41
EDWARD J. (JR.)	Denver, Montrose & Leadville, Colo.	9-17-48

NAME	ADDRESS	MT
McPEAK, T. (TOM) M.	Pensacola, Fla.	6
McPEAK, TOMMY WOOD	Pensacola, Fla.	6
MECKLENBERG, D. O.	Billings, Mont.	12
MEDALIE, SAM.	St. Louis, Mo.	6
MEEKS, HARRY H.	Baltimore, Md.	6
MELKOFF, MORRIS	Baltimore, Md. Reading, Pa.	1
MEL-VINE PRODUCTS CO.	Newark, N. J.	1
MENDENHALL, VERNON L.	Mt. Vernon & Cairo, Ill.	1
	Evansville, Ind.	1
MERAZ, SAL	Santa Ana & Culver City, Calif.	1
MERKIN, ALLEN L.	Oil City, Pa.	12
MERCHAND, NELSON	Detroit, Mich.	1
MERNER LUMBER CO.	Palo Alto & San Jose, Calif.	1
MERNER, PAUL	Palo Alto & San Jose, Calif.	1
MERRILL, ROBERT P.	White Plains, N. Y.	1
MERRIMACK VALLEY HOME IMPROVEMENT CO.	Haverhill, Mass.	
MERRING, CHESTER GEORGE	Newark, N. J.	
MERRITT, R. H. CO., INC.	Philadelphia, Pa.	
MERRITT, RALEIGH H.	Philadelphia, Pa.	
MESSINE, A. J.	Omaha, Neb.	
MESENER, R. S.	San Diego, Calif.	
MEYERS, H. F.	Beverly Hills & Pomona, Calif.	
MEYERS, HARRY J. T. (JR.)	Atlantic City, N. J.	
MICA-MASTIC OF FLORIDA	Miami, Fla.	
MICHAEL, HARRY M.	Chicago, Ill.	
MICHAEL TILING & IMPROVEMENT CO.	Chicago, Ill.	
MICHAELS, ROSE KALMOTH OCHER	Chicago, Ill.	
MICHAELSON, HARRY M.	Chicago, Ill.	
MICHIGAN HOME IMPROVEMENT CO.	Saginaw & Pontiac, Mich.	
MID-VALLEY HEAT & POWER CO.	St. Louis, Mo.	
MID-WAY HOME IMPROVEMENT CO.	New Hampton, N. Y.	
MIDWAY ROOFING & SIDING CO.	New Hampton, N. Y.	
MIDWEST HOME IMPROVEMENT CO.	Shreveport, La.	
MIKEE, PAUL	Pittsburgh, Pa.	
MILLAR, ALBERT	Detroit, Mich.	
MILLER, C. D.	Los Angeles, Calif.	
MILLER, CHARLES	Chicago, Ill.	
MILLER, CHARLES E.	San Antonio, Tex.	
MILLER, DEAN	Los Angeles, Calif.	
MILLER, E. H.	Pittsburgh, Pa.	
MILLER, HAROLD ROYCE (HACK)	Chicago, Ill. Atlanta, Ga.	
	Birmingham, Ala.	
MILLER, JACK	Laguna Beach, Calif.	
MILLER, MARVIN ARNOLD	Chicago, Ill.	
MILLER, MARY L.	Chicago, Ill.	
MILLER, MORRIS	Fresno, Calif.	
MILLER, S. B.	Florence, S. C. Palm Springs, Calif.	
MILLER, VELMA	Florence, S. C.	
MILLER, WILLIAM K.	Los Angeles, Calif.	
MINASH, HENRY	Des Moines, Iowa	
MINDER, BARNETT	Van Nuys, Calif.	
MINERAL ROCKWOOL INSULATION CO.	Memphis, Tenn.	
MINGINO, MICHAEL J.	Bellport, L. I., N. Y.	
MINK, I.	Chicago, Ill. Gary, Ind.	
	Milwaukee, Wis.	
MINK, I. R.	Gary, Ind. Chicago, Ill.	
	Milwaukee, Wis.	
MINKHOFF, I.	Gary, Ind. Chicago, Ill.	
	Milwaukee, Wis.	
IRVING R.	Gary, Ind. Chicago, Ill. Milwaukee, W	
IRVING	Chicago, Ill. Gary, Ind.	
.. J.	Los Angeles, Calif.	
M... .. H.	Burlington, N. C.	
MIT ..	Hamilton & Middletown, Ohio	
MIT ..	Irvington & Montclair, N. J.	

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	ADDRESS	DATE ISSUED
TRACTORS CORP.	Brooklyn, N. Y.	5-12-47
TING & SHEET METAL WORKS	Brooklyn, N. Y.	5-12-47
& COMPANY	New York, N. Y.	3-16-43
LIUS	New York, N. Y.	3-16-43
STRUCTION CO.	Jacksonville, Fla.	6-4-48
TING COMPANY	Nashville & Chattanooga, Tenn.	3-11-48
IE BUILDERS	Valley Stream, L.I., N. Y.	9-15-48
IE IMPROVEMENT CO.	Lexington, Ky.	12-15-48
IES COMPANY	Chicago, Ill.	1-28-49
ROVEMENTS CO.	Cape May, N. J.	1-18-52
VICE COMPANY	Greenville, Miss.	7-22-48
STEPHEN F.	Bridgeville & Pittsburgh, Pa.	7-31-45
STRUCTION CO.	Memphis, Tenn.	5-9-51
TERPRISES	Memphis, Tenn.	5-9-51
Y H.	Memphis, Tenn.	5-9-51
NN	Indiana, Pa.	12-15-49
WARD A.	San Antonio, Tex.	11-28-52
;	N. Hollywood, Calif.	7-26-51
TRICES, A. (MAXWELL)	Portland, Oregon	12-28-51
URLES W. (JACK)	Spokane, Wash.	11-30-51
M.	Atlanta, Ga.	4-30-51
H.	Dallas, Tex.	6-30-50
JNG J.	E. Detroit, Mich.	7-28-52
WARD L.	Erie, Pa.	2-21-46
P.	Indianapolis, Ind.	8-27-51
I. E.	Portland, Ore.	7-3-40
MANUEL	Baton Rouge, La.	2-16-40
ARCUS W.	Evansville, Ind.	3-28-52
M	Los Angeles, Calif.	4-16-52
WILLIAM C. (BILL)	Des Moines & Davenport, Iowa	12-19-51
	Rock Island, Ill.	
(MOND (RAY) H.	W. Los Angeles, Calif.	1-15-51
EMMANUEL	Los Angeles, Calif.	1-27-49
HN T.	Los Angeles, Calif.	1-13-41
BERT O. (JR.)	Philadelphia, Pa.	6-27-50
M	N. Hollywood, Calif.	9-20-51
GEORGE	Detroit, Mich.	9-29-50
ONSTRUCTION CO.	Belleville, N. J.	8-8-50
IE IMPROVEMENT CO.	Cleveland, O.	8-20-52
B.	Buffalo, N. Y.	2-10-50
UEL P.	Buffalo, N. Y.	2-10-50
LES H.	Painesville & Shaker Heights, O.	4-16-52
ONSTRUCTION CO.	Jersey City, N. J.	11-10-48
EDWARD C.	Jersey City, N. J.	4-25-49
EDWARD C. & CO.	Jersey City, N. J.	4-25-49
JOSEPH R.	Jersey City, N. J.	11-10-48
RICHARD A.	Jersey City, N. J.	11-10-48
THOMAS E.	St. Louis, Mo.	8-26-52
ENJAMIN J.	Cambridge, Mass.	5-10-51
(UNSEY) WILLIAM (AL)	Si ver Spring, Md.	2-28-51
IE H.	Owensboro, Ky.	8-23-50
IMPLEMENTS	Owensboro, Ky.	8-23-50
EOPHUS D. (MRS)	Detroit, Michigan	4-30-51
FRANK SPEIRAN)		
EDERICK C.	Flint, Mich.	9-3-40
HARRY	Portland, Ore.	7-3-40
I.	Bellaire, O.	11-28-52
I. & SON	Washington, Pa.	11-28-52
TRACTING CO.	Bellaire, O.	11-28-52
WES J.	Long Beach, L. I., N. Y.	5-4-49
V.	Long Beach, L. I., N. Y.	5-4-49
VIN	Memphis, Tenn.	12-31-52
	Greensburg, Pa.	11-21-46
N		
JOSEPH A.	Andover & Lawrence, Mass.	6-30-52
	Rutland, Vt. Auburn, Me.	

NAME	ADDRESS	DATE
NADGE, J. MORRIS	Newark, N. J.	7-
NAJAVITS, MORRIS	Newark, N. J.	7-
NALTI-GOURAN ASSOCIATES	Washington, D. C.	4-
NANCARROW, DAVID G.	N Hollywood, Calif.	9-
NAPOLS, JOSEPH	Brooklyn & E. Rockaway, N. Y.	6-
NAPOLSKY, JOSEPH	Brooklyn, E. Rockaway & Jamaica, N. Y.	4
NATIONAL CONSTRUCTION CO.	Minneapolis, Minn.	!
NATIONAL HOME IMPROVEMENT CO.	St. Louis, Mo.	6
NATIONAL HOME MODERNIZERS	Dayton, Ohio	10
NATIONAL HOME PRODUCTS CO.	Seaford, N. Y.	11
NATIONAL IMPROVEMENT CO.	Tulsa, Okla.	11
NATIONAL INSULATING & VENEERING CO.	Butler, Pa.	4
NATIONAL PLASTILE CO.	Newark, N. J.	!
NATIONAL SALES CO.	Memphis, Tenn.	11
NATIONAL TERMINING & FLOOR BRACING CO.	Tulsa, Okla.	11
NATIONWIDE CORPORATION	Washington, D. C.	!
NEBRASKA FURNACE CO.	Omaha, Neb.	!
NEESE, JACK	Salem, Ore.	!
NEIBURGER, JOSEPH F.	Muncie & Indianapolis, Ind. Birmingham, Ala.	!
NELSON, R. S. & COMPANY	Dayton, Ohio	!
NELSON, R. T. (DICK)	Oakland, Calif.	!
NELSON, R. T. COMPANY	Oakland, Calif.	!
NELSON, ROBERT	Utah & Colo.	!
NELSON, ROBERT H.	Haverhill, Mass.	!
NELSON, ROBERT S.	Dayton, Ohio	!
NEMIA, THOMAS FOLEY	Jamaica, N. Y.	!
NESSBETT, J. M.	Los Angeles, Calif.	!
NESSBITT, LAWRENCE	Detroit, Mich.	!
NETISHEN, JOSEPH A.	Shrewsbury, Mass.	!
NEWMAN, BEN	Baltimore, Md. Reading, Pa.	!
NEWMAN, BERT	Baltimore, Md. Reading, Pa.	!
NEWMAN, L. M.	Cincinnati, Ohio	!
NICELY, MARVIN S.	Buffalo, N. Y.	!
NICHOLS, A. H.	St. Louis, Mo.	!
NICHOLS, V. O.	Memphis, Tenn.	!
NICKEL, ALFRED H.	Los Angeles, Calif.	!
NIELSEN CONSTRUCTION CO.	Chicago, Ill.	!
NIELSEN, M. L.	Fresno, Calif.	!
NIELSEN, WALTER	Chicago, Ill.	!
NORDQUIST HERMAN	Chicago, Ill.	!
NORMANDY TILE CO.	Miami Beach, Fla.	!
NORTHERN INSULATION CO.	Rhineland, Wis.	!
NORTHERN STATES CONTRACTING CO.	Ashton, S. D.	!
NORTHERN WATER SOFTENER CO.	San Jose, Calif.	!
NORTH JERSEY CONSTRUCTION CO.	Belleville, N. J.	!
NORTH JERSEY HOME IMPROVEMENT CO.	Newark, N. J.	!
NORTH NEWARK ROOFING SUPPLY CO.	Belleville, N. J.	!
NORTHRUP HERBERT L.	Miami, Fla.	!
NORTH WALES REAL ESTATE CO.	Atlantic City, N. J.	!
NORTHWEST CONTRACTING CO.	South Bend Ind.	!
NORTHWEST LANDSCAPE CO.	Portland, Ore.	!
NORTHWEST ROOFING CO.	Oakland, Calif.	!
NORTHWEST SPECIALTY ENGINEERS	Seattle, Wash.	!
NORTON, JACK	Portland, Ore.	!
NUGENT, BYRON	Evansville, Ind. St. Louis, Mo.	!
NUGENT ROOFING & SUPPLY CO., INC.	Springfield, Ill.	!
NU-KOTE COMPANY	Evansville, Ind. St. Louis, Mo.	!
	Springfield, Ill.	!
	Cambridge, Mass.	!

O

OAKLAND BUILDING INDUSTRIES	Pontiac, Mich.	!
OENSHAIN, G. P. (GERALD P. GERRY, or JERRY)	Hawthorne, Los Angeles, Inglewood, Calif.	!

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NAME	ADDRESS	DATE ISSUED
J. T.	San Antonio, Tex.	7-23-48
RATING CO.	Chicago, Ill.	2-22-46
RY M.	Chicago, Ill.	2-22-45
SE KAIMOTH	Chicago, Ill.	9-30-47
ENRIETTA	Long Beach, Calif.	11-21-51
HETTIE	Long Beach, Calif.	11-21-51
JACK	Stockton, Calif.	10-3-46
JAMES	Trenton, N. J.	11-28-52
J. A.	Long Beach, Calif.	11-21-51
WILLIAM A.	Long Beach, Calif.	11-21-51
WILLIAM PRESTON	Chicago, Ill.	5-17-47
JOHN P.	Washington D. C.	4-21-50
JAMES F.	Waycross, Ga.	5-25-39
ALTER J.	Morristown, N. J.	7-20-42
JAMES	Toledo, Ohio	7-3-52
MR. (Initials Unknown)	Los Angeles, Calif.	7-11-51
TRUCTION CO.	Columbus, Ohio	1-18-52
INSULATION CO.	Toledo, Ohio	6-17-48
JOHN	New York, N. Y.	1-8-48
HARLES	New Orleans, La.	3-14-52
WILLIAM J.	Los Angeles, Compton & Ontario, Calif.	6-12-51
	San Antonio, Tex.	
TERRY	Pomona, Calif.	9-27-51
CHARLES L.	Houston, Tex.	9-24-42
HARD COMPANY	New Orleans, La.	12-31-52
RGE	Brooklyn, N. Y.	3-20-42
OLD	Jacksonville, Fla.	5-27-47
L. V.	Montebello, Calif.	9-27-51
JOHN J.	Studio City Calif.	6-28-41
IOS	St. Louis, Mo.	8-26-52
ILTON	Des Moines, Iowa	11-30-50
ETRIC CONSTRUCTION CO.	Portland & Eugene, Ore.	6-30-52
ESCAPE CO.	Portland, Ore.	5-12-48
UCTION CO.	Jacksonville, Fla.	6-28-46
	Jonesboro, Ark.	6-29-51
IT T.	Jacksonville, Fla.	6-28-46
ORREST	Salt Lake City, Utah	8-16-51
ORREST COMPANY	Salt Lake City, Utah	8-16-51
(HARRY)	Chicago, Ill.	6-8-45
L.	Newark, N. J.	8-28-43
ERRY M.	Chicago, Ill.	9-30-47
RY M.	Chicago, Ill.	9-30-47
I, ROBERT HUGH	Los Angeles, Calif.	6-12-51
SIDNEY	Azuza, Calif.	4-16-52
ONSTRUCTION CO.	St. Louis, Mo.	10-8-52
IN M.	St. Louis, Mo.	4-30-45
I. JOHN M.	St. Louis, Mo.	4-30-45
IZABETH	White Plains, N. Y.	2-28-51

P

PRODUCTS CO.	Denver, Leadsville & Montrose, Colo.	9-17-48
INSTRUCTION CO.	Boise, Idaho	12-31-52
INDSCAPE CO.	Portland, Ore.	5-12-48
PATES BUILDERS	Oakland, Calif.	11-21-51
I	San Francisco, Calif.	8-23-50
IDING CO.	Paducah, Ky.	8-24-50
IGE W.	San Jose, Calif.	9-6-51
I M.	Baltimore, Md.	1-1-42
E.	Toledo, Ohio	3-26-47
OMER	Rossville, Ga.	8-5-42
LOUIS	Brooklyn & New York, N. Y.	11-10-47
JOE	Los Angeles, Calif.	11-8-50
ERRY (HAROLD)	Pittsfield, Mass. New York, N. Y.	3-11-40
	Newark, N. J.	
I, CARMELO	Brooklyn, N. Y.	5-12-47
OPING CO.	Gainesville & DeLand, Fla.	10-22-48

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NAME	ADDRESS	DATE INDEX
PAPPAS, PETER PARAMOUNT BUILDING & CONSTRUCTION CO.	Haverhill, Mass.	7-11-54
PAREL, BENNY	Cleveland, Ohio	8-1-54
PARKER, FRED W.	Omaha, Neb.	11-4-54
PARKER, J. M.	Montgomery, Ala.	11-4-54
PARKER LUMBER & SUPPLY CO.	Middletown, N. J.	11-4-54
PARTRIDGE CONSTRUCTION CO.	Middletown, N. J.	11-4-54
PARKER, M.	Brooklyn, N. Y.	1-5-55
PARVIN, J.	Chicago, Ill.	1-5-55
PARN, RICHARD HENRY	Houston, Tex.	8-4-55
PASLEY, MAX	Buffalo, N. Y.	11-5-55
PATCO EQUIPMENT CO.	Springfield, Ohio	11-5-55
PATTERSON, DONALD S.	Portland, Ore.	1-5-56
PATTERSON, FRANK A.	San Antonio, Tex.	9-5-56
PATTERSON, H.	Detroit, Mich.	9-5-56
PATTERSON, J. W.	Washington, D. C.	12-5-56
PATTERSON, LEE	Brookmont, Md.	2-5-57
PATTON, HANZEL	San Antonio, Tex.	2-5-57
PAULIN, J.	San Antonio, Tex.	9-5-57
PAVLICK, ANNA (MRS.)	Des Moines, Ia.	10-5-57
PAVLICK, STEPHEN	Kansas City, Mo.	10-5-57
PAYNE, MORRIS (MRS. THOMAS)	Nutley, N. J.	10-5-57
PAYNE, THOMAS	Pittsburgh, Pa.	10-5-57
PEACOCK, GEORGE W.	Pompton Lakes, Hawthorne & Newark, N. J.	1-5-58
PEARLMAN, EDWARD I.	Pleasantville, N. J.	1-5-58
PEARSON, HERBERT A.	Pleasantville, N. J.	1-5-58
PEARSON, JOHN	Newark, N. J.	9-5-58
PEARSON PLUMBING & HEATING CO.	Cleveland, O.	9-5-58
PEARSON, ROY S.	Jamaica, N. Y.	1-5-59
PEASE, HENRY E.	St. Louis, Mo.	1-5-59
PELTZ, JOHN P.	Memphis, Tenn.	2-5-59
PERDALE, BETTY	Birmingham, Ala.	9-5-59
PERIN ALUMINUM CORPORATION	Tuscaloosa, Ala.	9-5-59
PERDUE, L. O.	Tuscaloosa, Ala.	9-5-59
PERFECT TILE COMPANY	Worcester, Mass.	10-5-59
PERKINS, WILLIAM	Union City & E. Rutherford, N. J.	1-5-60
PERMA-FACE COMPANY OF AMERICA	Los Angeles, Calif.	7-5-60
PERMA-FACE COMPANY OF FLORIDA	Reading, Pa.	11-5-60
PERMA-FACE COMPANY OF PITTSBURGH	E. St. Louis & Belleville, Ill.	11-5-60
PERMA LAP MANUFACTURING CO.	Chicago, Ill.	11-5-60
PERMA SOFT EQUIPMENT CO.	Louisville, Ky.	11-5-60
PERMA SOFT, INCORPORATED	Pittsburgh, Pa.	11-5-60
PERMA-WAY SUPPLY CO.	Miami, Fla.	11-5-60
PERRITT, J. FRANKLIN	Pittsburgh, Pa.	11-5-60
PERRY, WILLIAM P.	Buffalo, N. Y.	11-5-60
PETASHNICK, HARRY	Pomona, Calif.	1-5-61
PEPPER, JAMES JOSEPH	Pomona, Calif.	1-5-61
PHILADELPHIA GEARLESS CONCRETE CO.	Pomona, Calif.	1-5-61
PHILLIPS, J. W.	Lewistown, Mont.	1-5-61
PHILLIPS, P.	Norwich, Conn.	1-5-61
PHILLIPS, P. S.	Indianapolis & Muncie, Ind.	1-5-61
PHILLIPS REINFORCING CO.	Memphis, Tenn.	1-5-61
PHILLIPS, HARRY	Birmingham, Ala.	1-5-61
PICKENS, FRED	Sheboygan, Wis.	1-5-61
PICKENS, CHARLES E.	Atlantic City, N. J.	1-5-61
PICKENS, EDWARD E.	Philadelphia, Pa.	1-5-61
PICKENS, BETTY	Chicago, Ill.	1-5-61
PINE, WARREN	Newark, N. J.	1-5-61
PINE, S. E.	Dayton, Ohio	1-5-61
PIONEER CONSTRUCTION CO., INC.	Flint, Mich.	1-5-61
PIONEER, GABRIEL &	Jeffersonville, Ind.	1-5-61
PITTSBURGH GAS HEATING CO.	Newark, N. J.	1-5-61
PITTSBURGH, W. F.	Beverly Hills & Pomona, Calif.	1-5-61
	Chicago, Ill.	1-5-61
	Los Angeles, Calif.	1-5-61
	Los Angeles, Calif.	1-5-61
	Stockton, Calif.	1-5-61
	Los Angeles, Calif.	1-5-61
	Seattle, Wash.	1-5-61
	Louisville, Ky.	1-5-61
	Birmingham, Ala.	1-5-61

HOUSING ACT OF 1954

1937

	ADDRESS	DATE ISSUED
S A.	Los Angeles, Calif.	11-21-51
RICHARD K.	Los Angeles, Calif.	5-31-50
	San Francisco, Calif.	5-12-52
MON	Cleveland, Ohio	6-30-48
E.	E. Chicago, Ind. Calumet City, Ill.	6-21-45
E. & SON	E. Chicago, Ind. Calumet City, Ill.	6-21-45
LIAN B.	Milwaukee, Wis.	8-30-40
M.	Lakewood, N. J.	4-22-48
ERT	Union City & Belleville, N. J.	2-16-49
ENCE	Atlantic City, N. J.	8-24-45
E B.	Portland, Ore.	3-30-51
NG MATERIALS CO.	Portland, Ore.	3-30-51
D.	Sacramento, Calif.	11-20-50
E IMPROVEMENT CO., INC.	Newark, N. J.	6-30-50
LLO	Brooklyn, N. Y.	5-12-47
ERT	Pittsburgh, Pa.	7-14-49
CONSTRUCTION CO.	Portsmouth, Ohio	1-21-47
S D.	Fitzgerald, Ga.	4-27-42
DIE	Dallas, Tex.	7-11-47
D.	Newark, N. J.	6-30-50
X	Brooklyn, N. Y.	3-8-45
ORGE R.	Nicholasville, Ky.	6-15-50
ERICK G.	Knoxville, Tenn.	1-10-42
.	Elmira, N. Y.	12-3-40
A.	Yakima, Wash.	12-11-41
N. M.	St. Louis, Mo.	4-30-45
A.	Nutley, N. J.	6-22-50
EASLEY	Hattiesburg, Miss.	6-13-49
LEON	Hattiesburg, Miss.	6-13-49
C.	Stockton, Calif.	10-3-46
HUR G.	San Diego, Calif.	2-27-51
T. JR.	San Diego, Calif.	2-27-51
T. SR.	San Diego, Calif.	2-27-51
T. & SONS	San Diego, Calif.	2-27-51
WATER SOFTENER CO.	Salt Lake City, Utah	12-17-51
ICE CO.	Portland, Ore. Helena, Billings & Missoula, Mont.	11-30-51
.	Miami, Fla.	2-11-52
METAL WEATHERSTRIP CO.	Seattle, Wash.	9-29-46
FINING & CONSTRUCTION CO.	Chicago, Ill.	6-14-46
ICE C. (JR.)	Webster Groves & St. Louis, Mo.	10-8-52
ENN	Los Angeles, Calif.	5-15-51
	Long Beach, Calif.	9-27-51

Q

CO	Brooklyn, N. Y.	11-1-46
E IMPROVEMENT CO.	Portland, Ore.	6-16-52
MER	Dayton, Ohio	12-11-46
ET METAL CO.	Dayton, Ohio	12-11-46

R

TMENT STORE	Magee, Miss.	2-29-52
ATORS	Houston, Tex.	4-25-51
RUCTION CO., INC.	Cleveland, Ohio	12-17-51
COMPANY	Detroit, Mich.	12-4-52
ISRAEL	Houston, Tex.	4-25-51
ORGE	Toledo, Ohio	11-1-50
HAEI	Buffalo, N. Y.	11-15-51
WRENCE	Jacksonville, Fla.	6-4-48
LTON E.	Jacksonville, Fla.	6-4-48
S	New Haven, Conn.	1-22-48
	Miami, Fla. South Bend, Ind.	8-26-52
REPROOF COATING CO.	Miami, Fla.	8-26-52
ASTIAN	Brooklyn & Central Islip, N. Y.	11-19-46
LLIP	Worcester, Mass.	3-31-47
ELL	Levittown, L. I., N. Y.	8-30-50

NAME	ADDRESS	DATE
RAITER, WARREN	Los Angeles, California	
RALEY, ROLAND	Gary, Ind.	
RAMSEY, B. J. COMPANY	Fairfax, Va. Silver Spring, Md.	
RAMSEY, BLAIR J.	Fairfax, Va.	
RANO, ALFRED T.	Brooklyn, N. Y.	
RAPHAEL, BENJAMIN	Brooklyn, N. Y.	
RAPP, SAM	Gary, Ind.	
RAPPAPORT, SAM	Gary, Ind.	
RAUH, DAVID A.	Angelica, N. Y.	
RAUH, G. A. & SONS	Angelica, N. Y.	
RAUH, GUSTAV A.	Angelica, N. Y.	
RAUH, JAMES S.	Angelica, N. Y.	
RAVEL, FRANCIS	San Antonio, Tex.	
RAY, FRANK JAMES	San Jose, Calif.	
RAY LUMBER YARD	San Jose, Calif.	
RAYNE WATER CONDITIONING CO.	N. Hollywood, Calif.	
RAYNE WATER SOFTENER COMPANY	N. Hollywood, Glendale, Los Angeles, Lynwood, Pomona, Temple City & San Bernardino, Calif.	
REA, PATRICK	Detroit, Michigan	
READE, ALBERT	New York, N. Y. Belleville, N. J.	
REAL, DAN	El Centro, Calif.	
REAL, S. L.	El Centro, Calif.	
REBAL, MARK	Fresno & Oakland, Calif.	
REED, EARL, R. (RUSSELL)	Tulsa, Okla. Modesto, Calif.	
REED, TALBERT	Bellefontaine, Ohio	
REESE, MELVIN	Toledo, Ohio	
REGAL CONSTRUCTION CO.	Brooklyn, N. Y.	
REICH, ABRAHAM	Richmond Hill, N. Y.	
REICHERT GEORGE	Boise, Idaho	
REIPENSTEIN E.	Los Angeles, Calif.	
REIFENSTINE, E. LAWRENCE	Los Angeles, Calif.	
RELIABLE CONTRACTORS, INC.	Arlington, Va.	
RELIABLE FENCE & CONSTRUCTION CO.	Washington, D. C.	
REMUS, J.	N. Sacramento, Calif.	
RENOUR, M.	Boise, Idaho	
REPERTO, VINCENT	New Brunswick, N. J.	
REVAL, MARK	Fresno & Oakland, Calif.	
REZAK, NATHAN	Brooklyn, N. Y.	
RICE, BENJAMIN	Cincinnati Ohio	
RICE, CLARENCE J.	Mechanicsburg, Ind.	
RICHARDS, C. H.	Newport, Ore.	
RICHARDS CONSTRUCTION CO.	Cleveland, Ohio	
RICHARDSON, JOHN E.	Grand Rapids Mich.	
RICHMOND, HENRY E.	Philadelphia, Pa.	
RICKLE CONSTRUCTION & SUPPLY CO.	Jersey City, N. J.	
RICKLE, EUGENE	Jersey City, N. J.	
RICKMAN, HOWARD W.	Oakland, Calif.	
RIDER, SAMUEL	Pittsburgh, Johnstown & Altoona, Pa.	
RIDGE, FRANK E.	San Diego, Calif.	
RILEY, H. M.	Los Angeles, Calif.	
RILEY, JOSEPH	Pittsburgh, Pa.	
RILEY, KENNETH	Louisville, Ky. Jeffersonville, Ind.	
RIMEK, CARL P.	Norwich, Conn.	
RINDLEY R. H.	Dallas, Tex.	
RIVAL INDUSTRIES, INC.	N. Hollywood, Calif. Las Vegas, Nev.	
RIVERTON ROCK QUARRY	Portland, Ore.	
RIZZO, CHARLES B.	Brooklyn, N. Y.	
ROACH, JAMES R.	Des Moines, Iowa	
ROBERTS, C. P.	Magee, Miss.	
ROBERTS, JOHN R.	Wilkes-Barre, Pa.	
ROBERTS, ROY	Oakland, Calif.	
ROBINSON, EARL	Ashland, Ky.	
ROBINSON, ROY	Oakland, Calif.	
ROCCI, A. WARD	Portland, Ore.	
ROCCI, ANTHONY W.	Brighton, Mass.	

HOUSING ACT OF 1954

1939

	ADDRESS	DATE ISSUED
FR.)	Chicago, Ill.	6-14-48
	Chicago, Ill.	6-14-48
	Youngstown, Ohio	12-23-47
	Youngstown, Ohio	12-23-47
	Oak Park, Ill.	2-14-50
	Miami, Fla.	3-25-52
	Culver City, Calif.	2-27-41
	Duluth, Minn.	6-17-46
	Spirit Lake, Iowa	11-22-49
	Newark, N. J.	4-21-50
RING CO.	Garden City, L. I., N. Y.	9-3-46
	Flint, Mich.	9-15-52
	Detroit, Mich.	4-25-51
	Syracuse, N. Y.	3-8-40
	Norristown & Philadelphia, Pa.	5-5-52
	San Antonio, Tex.	7-13-51
	Los Angeles, Calif.	10-16-42
	Norristown, Pa.	5-5-52
	New York, N. Y.	10-9-44
	Philadelphia & Norristown, Pa.	11-29-51
V	Forest Hills, L. I., N. Y.	2-28-51
	Brookline, Mass.	1-3-49
	Tampa, Fla.	1-18-52
	Portland, Ore. Spokane, Wash.	12-28-51
	Detroit, Mich.	4-25-51
	Brookline, Mass.	1-3-49
	Portland, Ore.	5-12-48
	New Rochelle N. Y.	3-14-45
	Louisville Ky. Portsmouth, Ohio	1-21-47
	Detroit Mich.	4-25-51
J.	Los Angeles, Calif.	8-11-50
	Portsmouth, Ohio Louisville, Ky.	1-21-47
	Chicago, Ill.	
	Los Angeles, Calif.	5-1-52
	Houston, Tex.	1-16-48
	Greensboro, N. C.	4-30-52
	Bennettsville, S. C.	4-30-52
	Bennettsville, S. C.	4-30-52
	Boise, Idaho	12-31-52
	Irvington & Newark, N. J.	4-30-42
NG CO. ON CO.	Miami Beach, Fla.	2-7-49
	Pittsburgh, Pa.	11-16-42
	Oil City & Bradford, Pa.	1-8-42
	Pittsburgh, Pa.	11-16-42
	Pittsburgh, Pa.	11-16-42
	Newark, N. J.	7-9-41
	Spencer, Ia.	4-29-52
	Pontiac, Mich.	11-19-47
	Ionia, Mich.	2-13-45
	Pittsburgh, Pa.	9-25-44
SERVICE CO.	Chicago, Ill.	3-14-45
	Atlantic City & Trenton, N. J.	4-24-50
	Jamaica, N. Y.	5-21-42
	Miami, Fla.	8-31-51
	Jamaica, N. Y.	5-21-42
	Gulfport, Miss.	2-29-52
	Kansas City, Kan.	7-25-47
	Los Angeles, Calif.	9-7-51
	Seattle, Wash.	9-29-48
	San Antonio, Tex.	7-13-51
AROLD BURTON).	Seattle, Wash.	9-29-48
	Denver, Colo.	3-14-41
	Portland, Ore.	5-19-52
	Milwaukee, Wis.	6-29-42
	Philadelphia, Pa.	5-14-42
	San Antonio, Tex.	7-13-51

1940

HOUSING ACT OF 1954

NAME	ADDRESS	DATE 1954
S & S ROOFING & SIDING CO.	Bossier City, La.	3-3
S.E.C.O. UTILITIES CORP.	Brooklyn, N. Y.	7-1
SABO, JOSEPH	New Haven, Conn.	1-1
SAPADY, ALFRED J	Los Angeles, South Gate, Pomona & Riverside, Calif.	3-3
SAGE, IRENE G.	New Rochelle, N. Y.	1-1
SAGEN, GEORGE	San Antonio, Tex.	7-1
SAILOR, NORMAN	Chicago, Ill.	9-1
SALAVAN, E. JOSEPH	Fort Wayne, Ind.	10-
SALAVAN, GENE	Fort Wayne, Ind.	10-
SALAVAN, JOSEPH EUGENE	Fort Wayne, Ind.	10-
SALAVAN, SAM	Louisville, Ky.	5-3
SALISBURY, KENNETH L.	Portland, Ore.	6-1
BALTON, FRANK JACK	Chicago, Ill.	4-
SALTZMAN, JACK	New York, N. Y.	10-
SALVIDIO, ANTHONY	Worcester & Clinton, Mass.	3-3
SALVIDIO, SAMUEL	Worcester, Mass.	3-3
SALZER, JAMES L.	Chicago, Ill.	10-1
SALZMAN, PAUL	Toledo, Ohio	3-
SAMPSON, HARRY P.	Buffalo, N. Y.	5-1
SAMPSON HOME INSULATING CO.	Buffalo, N. Y.	5-1
SAMUELS CONSTRUCTION CO.	Cleveland, Ohio	1-
SAMUELS, MERRILL	Des Moines, Iowa	11-
SAN ANTONIO HOME IMPROVEMENT CO.	San Antonio, Tex.	3-
SAN ANTONIO SUPPLY CO.	San Antonio, Tex.	7-1
SANBORN, LEE A.	W. Los Angeles, Calif.	11-
SANFORD, MAX	San Diego, Calif.	4-
SANRUTEX INDUSTRIES, INC.	Chicago, Ill.	12-
SANTA FE CONSTRUCTION CO.	Los Angeles, Calif.	8-
SANTINI, JOHN J.	Brooklyn, N. Y.	5-
SANTINI, SAM	New York & Buffalo, N. Y.	5-
SANTO, JOHN	Brooklyn, N. Y.	5-
SANTORO, CARMINE	Brooklyn, N. Y.	12-
SAUER, JOSEPH	Philadelphia, Pa.	9-
SAUNDERS, ALLEN (AL)	Detroit, Mich.	5-1
SAUNDERS, JAMES P.	Tulsa, Okla.	2-1
SAURIN, ARNOLD J.	Los Angeles, Calif.	4-1
SAURIN, ARNOLD J. COMPANY	Los Angeles, Calif.	4-1
SAV-ON SERVICE	Los Angeles, Calif.	11-1
SAV-ON SOFT WATER CO.	Los Angeles, Calif.	11-1
SAWYER, MACK	Yakima, Wash.	12-1
SAWYER, O. A.	San Antonio, Tex.	7-1
SCALZO, ILLA	Brooklyn, N. Y.	3-
SCALZO, NATHANIEL	Brooklyn, N. Y.	3-
SCANLAN, MAURICE E.	Los Angeles, South Gate, Eagle Rock & Beverly Hills, Calif.	5-1
SCARBOROUGH FURNITURE CO.	DeWitt, Ark.	11-1
SCARBOROUGH, LLOYD H.	DeWitt, Ark.	11-1
SCHAEDEL, JOHN J.	Smithtown Branch, N. Y.	9-1
SCHAFER, DAVID	Floral Park, L. I., N. Y.	1-1
SCHENK, JACK	Cleveland, Ohio	6-1
SCHENK, SAMUEL	Cleveland, Ohio	1-1
SCHERER, J.	Buffalo, N. Y.	8-1
SCHERR, FRANK	Springfield & Columbus, Ohio	5-
SCHLESS, CHARLES	Louisville, Ky.	1-1
SCHIFFBAUER, WALLACE	Jackson Heights, N. Y.	1-
SCHINDLER, GUST	Billings, Mont.	3-1
SCHLOSBERG, LEE	Norwich & Waterford, Conn.	5-
SCHMALE, E.	Los Angeles, Calif.	6-1
SCHMEHL, HERBERT J.	Reading Pa.	11-1
SCHMIDT, JOHN	S. Ozone Park & Hollis, L. I., N. Y.	12-1
SCHMIDT, JOHN & COMPANY	Hollis, L. I., N. Y.	12-1
SCHNEIDER, EARL	Miami Beach, Fla.	2-
SCHNEIDER, J. S.	New York & Brooklyn, N. Y.	2-

HOUSING ACT OF 1954

1941

	ADDRESS	DATE ISSUED
LOUIS	New York, & Brooklyn, N. Y.	2-13-45
MARY (MRS. LOUIS)	New York, N. Y.-Brooklyn, N. Y.	2-13-45
I. C.	Beverly Hills, & Pomona, Calif.	11-21-51
I. ED	Cleveland, Ohio	5-20-48
S. NANDOR	Jamaica, N. Y.	5-21-42
WILLIAM J.	Yonkers, N. Y.	5-26-42
CHARLES	Woodbury & Lake Tract, N. J.	8-11-45
I. JOHN A.	Brooklyn & New York, N. Y.	12-23-46
CHARL F.	Sebring, Fla. Springfield, Ill.	4-11-42
J.	Van Nuys, Calif.	4-29-52
ATHAN	Jamaica, N. Y.	5-21-42
L. & COMPANY	Plainfield, N. J.	6-6-52
L. COMPANY (INC.)	Plainfield, N. J.	6-6-52
TIMMER L.	Plainfield, N. J.	6-6-52
DO G.	San Jose, Calif.	9-6-51
STHER (MRS. PAUL)	Canton, Ohio	1-9-47
MUL	Canton, Ohio	1-9-47
CHAEEL (MIKE)	Shreveport, La.	1-21-53
BERT	Chicago, Ill.	7-13-50
WOLD	Flushing, N. Y.	9-11-51
ARRY	E. Boston, Somerville, Lawrence & North Adams, Mass.	2-3-48
DUIS	Brooklyn, N. Y.	7-25-45
HOME IMPROVEMENT CO.	Detroit, Mich.	7-14-50
K	Hamilton, Cincinnati & Lima, Ohio	1-31-49
) JOHNSTONE III	International Pal s, Minn.	11-16-45
) J. & D. J.)	Mobile Ala. Biloxi & Meridian, Miss.	8-28-50
IT R.	Charleston, W. Va.	1-7-44
ACK	Birmingham, Ala.-Richmond, Va.	12-29-48
SEPH	Tulsa, Okla.	2-15-50
(WOOL INSULATION	Buffalo, N. Y.	9-17-48
STRUCTION CO.	Seattle, Wash.	3-22-48
S	Montclair, N. J.	4-23-48
STRUCTION CORP.	Syracuse, N. Y.	3-8-40
HARD V.	Somerville, Mass.	4-20-50
KYLE	Somerville, Mass.	4-20-50
ING SALES	Somerville, Mass.	4-20-50
) B.	Forest Hills, L. I., N. Y.	2-28-51
N E.	Martinsville, Ind.	12-19-44
JD H.	Philadelphia, Pa.	3-6-45
ES D.	Los Angeles, Calif.	9-24-40
LAY	St. Joseph & Benton Harbor, Mich.	5-15-47
COMPANY	St. Joseph & Benton Harbor, Mich.	5-15-47
BERT C.	Alexander City, & Goodwater, Ala.	8-17-50
CHAEEL	Detroit, Mich.	7-14-50
LAM	Chicago, Ill.	10-24-51
RAY	Newark, N. J.	5-19-41
)	Birmingham, Ala.	6-6-52
NG & HEATING CORP.	Cleveland, Ohio	3-10-48
,	Columbus & Springfield, Ohio	5-1-47
	Flushing, N. Y.	9-11-51
	Brooklyn & Long Island, N. Y.	11-17-49
	Brooklyn & Long Island, N. Y.	11-17-49
	Springfield & Columbus, Ohio	5-1-47
	Columbus & Springfield, Ohio	5-1-47
COMPANY	Baltimore & Hyattsville, Md.	11-28-49
WM H.	Baltimore & Hyattsville, Md.	11-28-49
	Jamaica, New York	5-21-42
YD K.	Hollywood, San Bernardino & Oakland, Calif.	1-4-52
STRUCTION CO.	Jersey City N. J.	12-7-50
UEL H.	Birmingham, Ala.	5-3-45
IL	Canton, Ohio	1-9-47
MY R.	St. Louis, Mo.	9-12-45

1942

HOUSING ACT OF 1954

NAME	ADDRESS	DATE ISSUED
SHUCART, HENRY H.	St. Louis, Mo.	8-14-47
SIBIUM, JOHN M. (SIRIBIUM SEBARIUM)	Brooklyn, N. Y.	11-20-51
SICKLER, EARL	Newark, Belmer & Bradley Beach, N. J.	9-13-49
SIEGAL, ABNER	Newark, N. J.	9-3-48
SIEGEL, EDWARD	Brooklyn, N. Y. E. Rutherford, N. J.	9-27-48
SILVA, ANTHONY	Santa Ana & Culver City, Calif.	9-27-48
SILVER LINE INSULATION CO.	St. Louis, Mo.	9-13-48
SILVERMAN, MANN	Detroit Mich.	1-27-49
SILVERMAN, STANLEY	Atlanta, Ga.	11-14-49
SILVER SPRING INSULATION CO.	Silver Spring, Md.	5-18-48
SIMMONS, CHARLES (CHUCK)	Silver Spring, Md. Fairfax, Virginia	2-28-48
SIMMONS, MICHAEL	Dorchester, Mass.	4-21-49
SIMMONS, PETER	Atlantic City, N. J.	8-26-49
SIMMONS, T. A.	Silver Spring, Md. Fairfax, Va.	2-28-48
SIMMONS, THOMAS A.	Silver Spring, Md. Fairfax, Virginia	2-28-48
SIMON, JACK	Richmond Heights, Mo.	8-12-49
SIMON, JOHN (JOHN H.)	Richmond Heights, Mo.	1-4-48
SIMON, M.	Boston Mass. Manchester, N. H.	1-28-49
SIMONE, CHARLES	Knoxville, Tenn. Linden, N. J.	10-29-49
SIMONS, JACK	Cincinnati, Ohio	11-10-49
SIMS, JAMES M.	Montgomery, Ala.	10-25-49
SIMS, LESTER	Houston, Tex.	3-28-48
SINGER, SAM	Newark, N. J.	10-4-49
SKAPP, SIDNEY H.	Lowell, Mass.	2-1-48
SKELTON, NORMAN	Milwaukee, Wis.	6-2-49
SLATER, WAYNE D.	Toledo, Ohio	9-2-49
SLOAN, LEE	Omaha, Neb.	11-28-49
SLOAN, NATHAN	Alexandria, Va.	9-27-49
SLOTKIN, LARRY	Los Angeles, Calif.	3-18-48
SMITH, BURDETTE J.	Wellsville, Ohio	12-25-49
SMITH, CHARLES	Portland, Ore.	11-4-49
SMITH, DAVID B.	Washington, D. C.	7-19-48
SMITH, DON	Joplin, Mo.	1-29-48
SMITH, EARL B.	San Antonio, Tex.	7-27-49
SMITH, EVANS A. (JR.)	Shreveport, La.	5-4-48
SMITH, HAROLD (JR.)	Topeka, Kan.	3-3-48
SMITH HEATING SERVICE	Wellsville, Ohio	12-21-49
SMITH, HERBERT RALPH	Berkeley & Oakland, Calif.	3-3-48
SMITH, IRVIN	Portland, Ore.	11-30-51
SMITH, J. A. R.	Lake Charles, La.	11-7-50
SMITH, MALCOLM N.	Meridian, Walnut Springs & Glen Rose, Tex.	3-18-49
SMITH, NATE	Houston, Tex.	5-21-48
SMITH, OSCAR	Evansville, Ind. Paducah, Ky.	8-24-50
SMITH'S PAINT STORE	Bogalusa, La.	6-29-49
SMITH, PAUL	Cleveland, Ohio	10-25-49
SMITH, PAUL COMPANY (THE)	Cleveland, Ohio	10-25-49
SMITH, ROBERT A.	Kansas City, Mo.	3-7-51
SMITHSON, MELVIN A.	Newark, N. J.	8-24-49
SMUCKLER, ART	Toledo, Ohio	6-17-48
SNYDER, K.	El Centro, Calif.	7-28-49
SOCALL, LARRY C.	E. Detroit, Mich.	5-11-48
SOHMER, HENRY	Albany, N. Y. Norfolk, Va.	4-28-48
SOHNEN, JOSEPH	Irvington, N. J.	11-29-51
SOKOLOFF, HYMAN	Bronx & New York, N. Y.	7-21-49
SOLES, JAMES C.	Biloxi, Miss.	7-25-49
SOLOMON, H. J.	New York, N. Y.	5-12-49
SOLOMON, JAY	Rego Park, L.I., N. Y.	5-11-48
SOLOWITZ, HENRY	Albany, N. Y. Norfolk, Va.	9-28-44
SORCE CONSTRUCTION CO.	Newark, N. J.	9-22-47
SORCE, JAMES (JR.)	Belleville, N. J.	4-4-48
SOUTH CITY SALES CO.	Tallahassee, Fla.	8-28-52
SOUTHEASTERN PLUMBING & HEATING CO.	Tuskegee, Ala.	3-16-48
SOUTHERN NURSERIES AND LANDSCAPING SERVICE	Little Rock, Ark.	
SPAINHOUR, WALTER	Salt Lake City, Utah	6-25-46
SPARBER, ARTHUR L.	Los Angeles, Calif.	9-6-51

HOUSING ACT OF 1954

1943

	ADDRESS	DATE ISSUED
X	Washington, D. C.	3-2-49
INDUSTRIES, INC.	Los Angeles, Compton & Ontario, Calif.	6-12-51
SERVICE CORP.	Ontario, Calif.	6-12-51
ATER SOFTENER CO., INC.	Los Angeles Compton & Ontario, Calif.	6-12-51
VG CO.	Orlando Fla.	1-10-49
J.	W. Los Angeles, Calif.	11-21-51
J. COMPANY	W. Los Angeles, Calif.	11-21-51
LACE A.	Indianapolis, Ind.	4-13-51
HARLES E.	Norwich & Waterford, Conn.	7-8-49
IN	Birmingham, Ala.	6-6-52
MPANY	Norwich, Conn.	7-8-49
COHEN	Pasadena, Calif.	11-13-45
BORGE	Houston, Tex.	1-8-48
. & SON	Utica, N. Y.	4-8-52
D J.	Utica, N. Y.	4-8-52
EST E.	Utica, N. Y.	4-8-52
FRANK	Detroit, Mich.	4-30-51
VACE, INC.	Spencer, Ia. Worthington, Minn.	4-29-52
LPH	Springfield, Mass.	1-10-47
A.	Pasadena, Tex.	8-11-50
ON E.	Los Angeles, Calif.	4-16-51
.	Portland, Ore.	7-3-40
LPH	Los Angeles, Calif.	3-23-42
V.	Battle Creek, Mich. Englewood, Colo.	9-16-52
ERT D.	Portland, Ore.	6-16-52
OCIATES, INC.	Dayton, Ohio	9-20-48
RD G.	Dayton, Ohio	9-20-48
	Evansville, Ind.	9-28-51
	Pittsburgh, Pa.	11-28-52
HN H.	Newark, N. J.	6-16-42
NSTRUCTION CO.	New Haven, Conn.	1-10-51
ATING & CONTRACTING	Brooklyn, N. Y.	8-23-48
ME IMPROVEMENT CO.	Indianapolis, Ind.	5-31-50
PROVEMENT & ROOFING CO.	San Francisco, Calif.	5-12-52
OFING CO.	Hyattsville & Baltimore, Md.	11-28-49
OFING CO.	Detroit Mich.	12-31-52
NRV M.	Boise Idaho El Monte, Calif.	5-23-47
	Sheridan, Wyo. Mesa, Ariz.	
L.	Cambridge, Minn.	3-18-49
L. CO.	Cambridge, Minn.	3-18-49
RM WINDOW CO.	Denver, Leadsville & Montrose, Colo.	9-17-48
CONSERVATION CO.	Portland, Ore.	11-30-51
RT	Buffalo, N. Y.	11-13-46
ARD	Forest Hills, L. I., N. Y.	2-28-51
	Brooklyn, N. Y.	1-14-46
X W.	Pittsburgh, Pa. Knoxville, Tenn.	10-29-41
RLIE D.	Muncie, Ind.	3-28-52
HARLES	Philadelphia, Pa.	8-19-48
NSTRUCTION CO.	Newark, N. J.	7-31-51
ACOB	Philadelphia, Pa.	8-19-48
LIGHTING FIXTURE CO.	Philadelphia, Pa.	8-19-48
DUIS	Philadelphia, Pa.	8-19-48
AULINE R.	Philadelphia, Pa.	8-19-48
STRUCTION CO.	Los Angeles, Calif.	4-22-49
G.	Houston, Tex.	2-3-49
JESSE W. (JR.)	Morgantown, W. Va.	9-30-48
THEIR BUILDERS	Pontana & Los Angeles, Calif.	5-31-50
A.	San Antonio & Houston, Tex.	2-18-44
BERT D.	Pontana & Los Angeles, Calif.	5-31-50
UL	Paducah, Ky.	5-13-41
UY A.	Detroit, Mich.	6-22-39
UY	Portland, Ore.	5-12-48
E.	Chicago, Ill.	1-23-42
ICE COMPANY	Staten Island, N. Y.	11-30-51

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NAME	ADDRESS	DATE
STOKES, THOMAS L.	St. Louis, Mo.	
STOLOFSKY, SAMUEL	Pittsburgh, Pa.	
STONE CRAFT SIDING CO.	Corona, L. I., N. Y.	
STONE, CRAIG	San Antonio, Tex.	
STONE, J. E. (SPIKE)	Los Angeles, Calif.	
STORM, A. D.	San Antonio, Tex.	
STORM BROTHERS	San Antonio, Tex.	
STORY C. C.	San Antonio, Tex.	
STORY, O. L.	Steele, Mo.	
STOWE, ELIZABETH E. (MRS. W. E.)	Worcester, Mass.	
STOWE, W. E.	Worcester, Mass.	
STREETS, E. G. (GEORGE)	Helena Butte, Missoula, Bozeman, Billings, Lewistown & Great Falls, Mo., Portland, Ore.	
STRONG, M.	Nutley, N. J.	
STRONG, MILTON	New Orleans, La.	
STUART CONSTRUCTION CO. INC.	Los Angeles, Calif.	
STUART, J. C.	Boise, Idaho	
STULL, G. W.	Hollywood, Calif.	
STYX, ARTHUR	Muscatine, Iowa	
SUBURBAN HOME IMPROVEMENT CO.	Mt. Vernon, N. Y.	
SUBURBAN HOME IMPROVERS	Mt. Vernon, N. Y.	
SUBURBAN HOME RENOVATORS, INC.	Mt. Vernon, N. Y.	
SULLIVAN, THOMAS J.	Absecon, N. J.	
SUMMERS, ABRAHAM	Los Angeles, Calif.	
SUPERIOR CONSTRUCTION CO.	Cincinnati Hamilton & Lima, Ohio Connersville, Ind.	
SUPERIOR FURNACE CO.	Mason, City, Ia.	
SUPERIOR IMPROVEMENT CO.	Chicago, Ill.	
SUPERIOR ROOFING & SIDING CO.	Richmond Heights, Mo.	
SUTHERLAND JOHN (JACK)	Syracuse, N. Y.	
SUTPHEN CARL	Miami, Fla.	
SUTTER, EDWARD	Oil City, Pa.	
SWETLICK HARRY	Charlotte, N. C.	
SWORDS, WARREN H.	University City, Mo.	
SYDNEY, P. W.	Hackensack, N. J.	
T		
T & W CONSTRUCTION CO.	North Hollywood, Calif.	
TABER, CLAUDE	Asheville, N. C.	
TABON, DONALD (DON)	San Antonio, Tex.	
TACOMA METAL WEATHERSTRIP CO.	Seattle, Wash.	
TALBOT, KENNETH	Forest Hills & Brooklyn, N. Y.	
TALMADGE, FRANK	Buffalo, N. Y.	
TANNENBAUM, SIDNEY H.	Patchogue, N. Y.	
TANNER, ALBERT	North Hollywood, Calif.	
TANNER, CHARLES	Chicago, Ill.	
TANNER, RUSSELL LEE	Houston, Tex.	
TAYLOR, ROY G.	Des Moines, Iowa	
TEXAS IMPROVEMENT CO.	San Francisco, Calif.	
TEXAS INSULATION CO.	San Antonio, Tex.	
THAKE, E. J.	San Antonio, Tex.	
THEMIS, KASTAS (GUS)	Bradford, Pa.	
THERMAL ENGINEERING SERVICE	Brooklyn & New York, N. Y.	
THOMAS, EDGAR H.	Biloxi & Meridian, Miss.	
THOMAS, GEORGE	Mobile, Ala.	
THOMAS, HARVEY	Kansas City, Kan.	
THOMAS, HARVEY HOME BEAUTIFYING CO.	Indianapolis, Ind.	
THOMAS, O. H.	St. Louis, Mo.	
THOMAS, O. H.	Glendale, Calif.	
THOMAS, P. A.	Glendale, Calif.	
THOMAS & PRICE COMPANY	Lyman, S. C.	
THOMAS, ROBERT	Tallahassee, Fla.	
THOMPSON HILL AIR CONDITIONING CO.	Yakima, Wash.	
THOMPSON INSULATION & MANUFACTURING COMPANY	Yakima, Wash.	
	Long Beach, Calif.	
	Brooklyn, N. Y.	
	Toledo, Ohio	

HOUSING ACT OF 1954

1945

ADDRESS	DATE ISSUED
IM	Houston, Tex. 3-28-52
ILLIAM	Toledo, Ohio 6-17-48
JEN R.	Los Angeles, Calif. 9-20-51
JON	Los Angeles, Calif. 11-8-50
J., INC.	New York & Brooklyn, N. Y. 10-29-48
J. (MERL)	Indianapolis, Ind. 4-13-51
ER SOFTENER CO.	Los Angeles & Alhambra, Calif. 6-29-51
ENRY	Newark, N. J. 10-27-49
EBERT	Newark, N. J. 8-23-50
OMPANY	Richmond Heights, Mo. 8-12-49
UNLEY C.	Reading, Pa. 11-29-51
HUNTER (JR.)	Brooklyn, N. Y. 12-24-41
ID W.	Grand Island, Neb. 11-30-51
I.	Portland, Ore. 11-30-51
I J.	Los Angeles, Calif. 9-7-51
	Los Angeles, Calif. 8-11-50
O.	San Antonio, Tex. 7-23-48
ERT	Brooklyn, N. Y. 5-12-47
PATRICK	Nutley, N. J. 7-23-51
SEPH	Boston, Mass. 6-5-47
UCTION ASSOCIATES, INC.	Jamaica, N. Y. 4-19-48
IG & SIDING CO.	E. Boston, Somerville, Lawrence & North Adams, Mass.. 2-3-48
	Kansas City, Kan. 9-15-41
	W. Hollywood & Oakland, Calif. 11-21-51
S	W. Hollywood & Oakland, Calif. 11-21-51
S. M.	Detroit, Mich. 6-22-39
DAH	Detroit, Mich. 6-22-39
DRMAN	Detroit, Mich. 6-22-39
	Nutley, N. J. 7-23-51
	Forest Hills, L. I. N. Y. 3-17-46
	E. Rutherford, N. J. 6-23-48
TH B.	Brooklyn, N. Y. & Forest Hills, N.Y. 4-4-47
THUR W.	Los Angeles, Calif. 4-21-50
TRUCTION CO.	Newark, N. J. 4-7-43
ER E.	Newark, N. J. 6-4-52
WELIN	Bellerose, L. I. N. Y. 5-12-47
RED	Brooklyn, N. Y. 3-25-52
	Miami, Fla. 5-12-52
URD	Philadelphia, Pa. 10-31-47
ULEY A.	Detroit, Mich. 9-26-47
TRUCTION CO.	Houston, Tex. 9-26-47
.. PLUMBING & HEATING	
LS & ENGINEERS	Houston, Tex. 9-26-47
LIAM	Houston, Tex. 9-26-47
LIAM LEON	Houston, Tex. 9-26-47
U	
	Newark, N. J. 8-31-49
	New York, N. Y. 9-20-49
RUCTION CO.	Memphis, Tenn. 12-31-52
IG & INSULATING CO.	Grand Rapids, Mich. 5-2-50
ING & AIR CONDITIONING	
INC.	Baltimore & Towson, Md. 2-3-50
LATION CO.	Corpus Christi, Tex. 1-16-51
Y COMPANY	Baltimore, Md. 9-12-50
ING & SIDING CO.	Atlanta, Ga. 4-17-52
UCTION CO., INC.	Richmond Hill, N. Y. 5-28-51
NSERVATION CO., INC.	Jamaica, N. Y. 4-1-48
WATER SOFTENER CO.	Beverly Hills & Pomona, Calif. 11-21-51
WOOL INSULATION CO.	San Diego, Calif. 11-21-51
COMPANY	Chicago, Ill. 10-21-48
INTRACTING CO.	Bethesda, Md. 2-14-49
INTRACTING CO.	Portland, Ore. 1-21-53
EATING & AIR CONDITION-	
Y	Auburn, N. Y. 7-5-49

NAME	ADDRESS	DATE
UNIVERSAL HOME IMPROVEMENT CO.	Memphis, Tenn.	10
UNIVERSAL HOME INSULATION CO.	W. New York, N. J.	6
UNIVERSAL REEROOFING COMPANY	Bethesda, Md.	1
UNIVERSAL ROCKWOOL INSULATION CO.	W. New York, N. J.	
UNIVERSAL SALES COMPANY	Memphis, Tenn.	
UNIVERSAL WATER SOFTENER CO.	Los Angeles, South Gate, Pomona & Riverside, Calif.	
UNTERMAN, PAUL	New Orleans, La.	
V		
VALE, L.	Hamilton & Middletown, Ohio	
VALINDE	Chetek & Marshfield, Wis.	
VALIND, NORBERT R.	Chetek & Marshfield, Wis.	
VILLAGE HEATING & AIR CONDITIONING CO.	Oak Park, Ill.	
VALLEY IMPROVEMENT CO.	Milwaukee, Wis.	
VALLEY STORM SASH CO.	Saginaw Mich.	
VALLEY WATER SOFTENER CO.	El Centro, Calif.	
VAN NATTA, R. K.	Bellflower, Calif.	
VAN OSTERBRIDGE, CORNELIUS	Irvington, N. J.	
VANPORT HIGHWAY MARKET	Portland, Ore.	
VAN SANTEN, J	Pittsburgh, Pa.	
VANCE, EDWARD	Houston, Tex.	
VANCE, J. D.	Longview, Tex.	
VARNO, R.	Burbank, Calif.	
VENTURA CONSTRUCTION CO.	New York, N. Y.	
VETERANS' CONSTRUCTION CO., INC.	Hollywood, San Bernardino & Oakland, C	
VIDAVER, RICHARD F. (FALK)	Chicago, Ill. Houston, Tex.	
VIGIL, M. F.	Philadelphia, Pa.	10.
VIGLIATURA, PETER	Worcester Mass.	3-2
VIKING ROOFING CO.	White Plains, N. Y.	3-21
VINCENT, EDWARD	Houston, Tex.	3-22
VINCENT, HOWARD	Toledo, Ohio	3-23
VINCUR, LOUIS M.	Miami, Fla.	3-24
VITOLO, CARMINE ERNEST	Brooklyn, N. Y.	3-25
VOELKER, FRED	Irvington, N. J.	5-12-48
VOGEL, EDWARD (EDDIE)	Fresno & Oakland, Calif.	11-22-48
VOGT, ED	Fresno Oakland & Los Angeles, Calif.	2-29-48
VOGUE, EDWARD (EDDIE)	Fresno & Oakland, Calif.	2-29-48
VOIT, STANLEY E.	Buffalo, N. Y.	2-29-48
VOLK, EDWARD (EDDIE)	Fresno, Oakland & Los Angeles, Calif.	11-17-48
VOSS, COMPANY (THE)	Omaha, Neb.	2-29-48
VOSS, GEORGE T.	Omaha & Grand Island, Neb.	7-28-48
W		
WACTOR INSULATION CO.	Meridian, Miss.	9-11-47
WACTOR, JAMES	Hammond, La.	9-11-47
WACTOR & SON	Hammond, La.	9-11-47
WAGNER HEATING & IMPROVEMENT CO.	Detroit, Mich.	8-9-48
WAGNER, JOHN	Springfield, Mo.	4-11-48
WAGNER, LEROY HARRY	Chicago, Ill.	5-23-48
WAGNER, WILLIAM	Detroit, Mich.	8-9-48
WAHN-EVANS COMPANY	Cincinnati, Ohio	9-17-48
WAHN, MACK	Cincinnati, Ohio	9-17-48
WAITE, JEROME C.	San Antonio, Tex.	3-24-48
WALDMAN, HERMAN P.	Atlantic City & Trenton, N. J.	4-24-48
WALDRON, F. T.	Glendale, Calif.	1-8-48
WALKER, ALBERT	Buffalo, N. Y.	8-16-51
WALKER, ARVILL	Houston, Tex.	2-3-48
WALKER,	Brooklyn, N. Y.	8-18-52
WALKER, L.	Cleveland, Ohio	8-12-48
WALKER, T W.	Cleveland, Ohio	8-12-48
WALKER, W P.	Oakland & Berkeley, Calif.	3-3-48
WALL, C. C.	Jackson, Tenn.	12-30-47
W	Indianapolis, Ind.	5-23-52
W	Des Moines, Iowa	9-5-47

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	ADDRESS	DATE ISSUED
3.	Irvington & Newark, N. J.	5-21-42
(JR.)	Baltimore, Md.	1-18-51
	Venice, Calif.	7-31-51
	Houston, Tex.	1-8-51
	Syracuse, N. Y.	1-18-51
	Columbus, Ohio	9-26-47
	Columbus, Ohio	9-26-47
	Beaumont, Tex.	5-10-41
	Harbison Canyon, Calif.	3-27-42
	Harbison Canyon, Calif.	3-27-42
	E. Orange & Newark, N. J.	10-2-45
	New York & Binghamton, N. Y.	11-30-50
	Hazleton, Pa. Nutley, N. J.	
	New York, N. Y.	2-27-46
	Oakland, Calif.	12-14-49
	Portland, Ore.	7-3-40
SERVICE	N. Hollywood, Calif.	4-9-51
T.	Lewistown, Mont.	1-16-51
	Newark, N. J.	4-21-50
	Brookhaven, Miss.	9-20-49
INDING CO.	Brookhaven, Miss.	9-20-49
	Portland, Ore.	11-21-51
	Biloxi & Meridian, Miss. Mobile, Ala.	8-28-50
IPANY	Baltimore, Md. Reading, Pa.	3-12-48
	Wooster, Ohio	12-13-48
LY CO.	Wooster, Ohio	12-13-48
	Los Angeles, Calif.	9-7-51
	Niles, Mich.	8-19-47
XC*	Boston, Mass. Cincinnati, Ohio	8-13-40
	Baltimore, Md. Manchester, N. H.	
ES	Chicago, Ill.	8-31-51
i	Newark & Rockaway, N. J.	6-24-44
	Little Rock, Ark.	11-1-50
	Los Angeles, Calif.	7-11-51
	Springfield, Mass.	11-9-50
	Pittsburgh, Pa.	8-9-46
	San Diego, Calif.	11-21-51
	Louisville, Ky.	6-27-49
	Louisville, Ky.	6-27-49
	Brooklyn, N. Y. Teaneck &	12-17-49
	Scotch Plains, N. J.	
	Los Angeles, Calif.	7-19-51
	Louisville, Ky.	9-29-50
	Brooklyn, N. Y.	2-16-48
	Brooklyn, N. Y.	2-16-48
IMPROVEMENT CO.	Los Angeles, Calif.	9-6-51
CO.	Newport, Ky. Cincinnati, Ohio	11-3-48
3.	Newport, Ky. Cincinnati, Ohio	11-3-48
CO., INC.	Grand Island, Neb.	7-28-49
TRACTING CO.	Ashton, Sturgis, Sioux Falls &	7-6-51
	Redfield, S. D. Zillah & Seattle, Wash.	
.)	Pittsburgh, Pa.	9-30-46
	Scranton, Pa. Camden, N. J.	12-13-48
LKINS	Louisville, Ky.	7-13-49
COMPANY	Louisville, Ky.	7-13-49
A. (JR.)	Sandy, Utah	7-3-41
J.	Erie, Pa.	2-21-46
	Jamaica, N. Y.	5-21-42
ILDING & SUPPLY CO.	Big Stone Gap, Va.	3-10-49
	Upper Darby Pa.	3-29-46
	Yeadon & Philadelphia, Pa.	2-28-47
	Big Stone Gap, Va.	3-10-49
N CO.	Toledo, Ohio	6-17-48
	Big Stone Gap, Va.	3-10-49
	Worcester, Mass.	3-8-40
	Dearborn, Mich.	9-17-47

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NAME	ADDRESS	DATE
WHITE, MILDRED E.	Sheboygan, Wis.	12-12-51
WHITE, ROBERT J.	Toledo, Ohio	6-17-51
WHITE ROOFING COMPANY	Detroit, Mich.	8-17-51
WHITE, W. A.	Paterson, N. J.	1-30-52
WHITE, W. B.	Detroit, Mich.	8-17-51
WHITEHEAD, JOSEPH R.	Tuscaloosa & Bessemer, Ala.	7-2-52
	Atlanta, Ga.	
WHITFORD, S. N.	Kinston, N. C.	7-20-52
WHITING, R.	Chicago, Ill.	1-31-52
WHITTEN, OLIN	New Orleans, La.	1-21-52
WHITTEN, RICHARD	New Orleans, La.	12-31-52
WHOLESALE BUILDING MATERIALS CO.	Sacramento, Calif.	11-28-52
WICKERSHEIMER, HARLEY C. (a.k.a. WICK)	Milwaukee, Wis.	3-26-52
WICK'S CONSTRUCTION CO.	Milwaukee, Wis.	3-26-52
WIECH CONSTRUCTION CO.	Biloxi, Miss.	7-21-51
WIECH, H. B.	Biloxi, Miss.	7-21-51
WIECH, JACK G.	Biloxi, Miss.	7-21-51
WILBUR, ALTON	Waltham, Mass.	9-28-51
WILDE, A.	Belleville, N. J.	9-28-51
WILHITE, J. M.	N. Hollywood, Calif.	11-21-51
WILKINS, BRUCE B.	Fresno & Bakersfield, Calif.	4-3-52
WILLIAMS, ALLEN	Brooklyn & New York, N. Y.	9-26-51
WILLIAMS, BUDDY	Brooklyn, N. Y.	9-26-51
WILLIAMS, CLAUDE S.	Indianapolis, Ind.	8-31-51
WILLIAMS CONSTRUCTION & BUILDING MATERIALS CO.	Baton Rouge, La.	1-12-51
WILLIAMS, ETHEL	Valley Stream, N. Y.	6-29-51
WILLIAMS, F. G. & COMPANY	Jamaica, N. Y.	5-29-51
WILLIAMS FOUNDATION COMPANY	Dallas, Tex.	3-22-48
WILLIAMS, FREDERICK G.	Jamaica, N. Y.	5-29-51
WILLIAMS, H. L.	Dallas, Tex.	3-22-48
WILLIAMS, HAROLD E.	Greenburg, Pa.	11-21-48
WILLIAMS, JOHN B.	Houston, Tex.	8-24-50
WILLIAMS, LEE	Dallas, Tex.	7-18-50
WILLIAMS, MILTON	Valley Stream, N. Y.	6-29-51
WILLIAMS, ROBERT WARREN	Jersey City, N. J.	12-7-50
WILLIAMS, VICTOR H.	Baton Rouge, La.	1-12-51
WILLIAMS, WILLIAM E. (BILL)	San Antonio, Tex.	7-23-52
WILLIAMSON, CARLTON	Burbank, Calif.	9-6-51
WILLIS, ROBERT J.	Kansas City, Mo.	6-26-46
WILLOUGHBY, FRED	Los Angeles, Calif.	9-6-51
WILSON, A. C.	Laguna Beach, Calif.	3-6-41
WILSON BUILDING CO.	Port Arthur, Tex.	5-24-48
WILSON, E. C.	Battle Creek, Mich.	1-13-47
WILSON, EUGENE	Chicago, Ill.	10-30-41
WILSON, N. S.	Jacksonville, Fla.	9-23-40
WILSON, ROBERT R.	Port Arthur, Tex.	5-24-48
WILSON, THOMAS	N. Hollywood, Calif.	3-18-49
WILSON, V. C.	Port Arthur, Tex.	9-3-48
WILSON, VERNON C. (JR.)	Port Arthur, Tex.	9-3-48
WILSON, WILLIAM D.	Syracuse & Watertown, N. Y.	11-18-42
WIMBISH, W. D.	Longview, Tex.	1-13-39
WINBOURN, W. J.	Little Rock, Ark.	3-16-48
WINDALUM IMPROVEMENT CO.	Valley Stream, N. Y.	6-29-51
WINKLEMAN, EDWARD D.	N. Hollywood, Calif.	4-9-51
WINSOR, EDWARD (EDDIE)	Fresno & Oakland, Calif.	2-29-52
WINSTON, FRED	Pittsburgh, Pa.	9-30-46
WINSTON, M. B.	Dayton, Ohio	6-18-40
WIRTZMAN, A. (ADOLPH)	Pittsburgh, Pa.	3-20-45
WISE, HAROLD	Ashton, S. D.	9-28-50
WISE, JESSE (JESS) E.	Ashton, Sturgis, Sioux Falls & Redfield, S. D.	7-6-51
	Zillah & Seattle, Wash.	
WISEMAN'S BUDGET	New Haven, Conn.	1-22-48
WISEMAN, OSCAR Z.	Pasadena, Calif.	11-13-45
WISNER, WILLIAM	Los Angeles, Calif.	6-17-49

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	ADDRESS	DATE ISSUED
BERT	Oakland, Calif.	10-3-46
	Mobile, Ala. Roanoke, Va.	9-12-44
	Washington, D. C.	
	Cleveland, Ohio	5-6-48
	Grand Rapids & Lansing, Mich.	9-12-47
3 B.	Fort Wayne, Ind.	10-3-47
ON C.	Toledo, Ohio	6-17-48
Y N.	Brighton, Mass.	11-21-51
RRY	Hackensack, N. J.	9-26-44
RTON	Belleville, N. J. Brooklyn, N. Y.	8-8-50
(	Hackensack, N. J.	9-26-44
IL	Birmingham, Ala.	12-9-52
SS R.	Newark, N. J.	9-12-50
VIS L.	N Charleston, S. C.	8-13-47
S.	Los Angeles, Calif.	4-17-52
HARD (DICK)	Reading, Pa.	11-29-51
	Sylacauga, Ala.	5-3-48
BERT	Van Nuys, Calif.	4-17-52
	San Diego, Calif.	4-16-52
RGE	San Diego, Calif.	4-16-52
	Little Rock, Ark.	11-1-50
X		
EDWARD	Bronx & New York, N. Y.	12-24-47
ECTOR	Bronx, N. Y.	12-24-47
Y		
ARD J.	Springfield, Ill. Milwaukee, Wis.	4-17-52
LD	Saginaw & Pontiac, Mich.	8-27-51
WRENCE	Newark, N. J.	11-29-51
WRENCE INC.	Newark, N. J.	11-29-51
O O.	Thomasville, N. C.	6-22-42
	Wichita, Kan.	11-24-47
SALES CO.	Wichita, Kan.	11-24-47
	W Hempstead & Flushing, N. Y.	7-26-45
	Fairfield, Conn.	
A (MRS. ISIDORE L.)	W. Hempstead & Flushing, N. Y.	8-3-45
(	Fairfield Conn.	
NG L.	Atlantic City, N. J.	8-24-45
	W. Hempstead & Flushing, N. Y.	7-26-45
ORE L.	Fairfield, Conn.	
	W. Hempstead & Flushing, N. Y.	7-26-45
	Fairfield Conn.	
	Chicago, Ill.	9-4-52
& COMPANY	Chicago, Ill.	9-4-52
M.	Beverly Hills & Pomona, Calif.	11-21-51
C. A.	San Jose, Calif.	5-6-49
Z		
IGISMUND LOUIS	Jacksonville, Fla.	7-28-52
IS	Chicago, Ill.	3-22-48
J. B. & S. R.	Utah & Colo. Chicago, Ill.	3-7-40
ORGE	Newark, N. J.	4-21-50
	Oil City, Pa.	12-22-48
EN	Portland, Ore.	11-9-50

**Supplemental List Of Dealers
Subject To The Provisions Of
Regulation VIII, Section 2**

* * * * *

February 1, 1953 Through November 30, 1953

HOUSING ACT OF 1954

1951

	ADDRESS	DATE ISSUED
A		
COMPLETE HOME SERVICE	Memphis, Tennessee	10-30-53
UMBING & HEATING CO.	Valdosta, Georgia	10-29-53
W. C.	Greenville, S. C.	7-29-53
HYMAN C. (HY)	Oakland, Calif.	
	Salt Lake City Utah	7-31-53
ED AUTOMATIC HEATING CO.	Chicago, Illinois	8-14-53
I. HOWARD H.	Indianapolis, Indiana	4-24-53
J. FRANK	West Sacramento, Calif.	10-22-53
DER, LOU	Oakland, Calif.	7-29-53
BUILDING SERVICE	Portland, Oregon	10-30-53
SAMUEL	San Francisco Calif.	
	Cleveland, Ohio	
	Salt Lake City Utah	6-11-53
BUILDING SERVICES, INC.	South Bend, Indiana	11-2-53
PE HOME IMPROVEMENT CO.	Nashville, Tennessee	10-30-53
ATHER ROCHESTER CORP.	Rochester, New York	6-4-53
Z, JOE V.	Los Angeles, Calif.	
	San Antonio, Texas	3-24-53
AN BUILDERS	Memphis, Tennessee	11-20-53
AN HOME FURNACE COMPANY	Portland, Oregon	10-30-53
AN SEATTLE COMPANY	Seattle, Washington	10-30-53
AN SEATTLE WHOLESALE CO.	Portland, Oregon	10-30-53
, JOSEPH J.	San Leandro, Calif.	4-21-53
, ELI	Albuquerque, New Mexico	7-17-53
AS HOME BUILDING &	Little Rock, Arkansas	
AIRING COMPANY	Pine Bluff, Arkansas	2-25-53
	Memphis, Tennessee	
MILTON	Chicago, Illinois	7-31-53
ONG, GLEN H.	Wichita, Kansas	10-30-53
ONG, PAUL	New Orleans La.	11-20-53
ATED HOME IMPROVEMENT CO.	Salt Lake City, Utah	7-31-53
CONSTRUCTION COMPANY	New Orleans, La.	10-27-53
ENTERPRISES, THE	San Leandro, Calif.	4-21-53
, SIDNEY	Albuquerque, New Mexico	10-30-53
ENT, E. J.	New Orleans, La.	3-20-53
TIC COOLING & HEATING CO.	Portland, Oregon	10-30-53
B		
FELDON O.	Vancouver, Washington	10-30-53
, HAROLD L.	Buffalo, New York	10-30-53
ROOFING & SHEET METAL CO.	Buffalo, New York	10-30-53
, REUBEN	Salt Lake City, Utah	3-31-53
T, BENJAMIN J.	St. Louis, Missouri	10-30-53
T ROOFING & SIDING SERVICE	St. Louis, Missouri	10-30-53
G. (GLADYS) A.	San Francisco, Calif.	5-19-53
, T.	Salt Lake City, Utah	3-31-53
, JULIUS (JACK)	Los Angeles, Calif.	11-9-53
AN, HARRY	Albuquerque, New Mexico	7-17-53
, IRVING GUTMAN	Salt Lake City, Utah	4-22-53
, JAMES J.	Columbus, Ohio	3-27-53
M. J.	Houston, Texas	11-13-53
ALLEN	New Orleans La.	4-24-53
HOME CONSTRUCTION CO.	Richmond, Virginia	6-17-53
Y, EDWARD R.	Los Angeles Calif.	10-30-53
T, FRED	Levittown, New York	11-20-53
LARRY	Los Angeles, Calif.	9-24-53
JOSEPH	San Leandro, Calif.	4-21-53
, JOSEPH	Louisville, Ky.	4-24-53
, HARRY, P.	Wichita, Kansas	10-30-53
, ALBERT (AL)	Los Angeles, Calif.	2-11-53
NRUCHER, G. A.	Mobile, Ala.	3-17-53
GRACE	Miami, Fla.	
	Newark, New Jersey	3-17-53
JEROME	Miami, Fla.	
	Newark, New Jersey	3-17-53

NAME

ADDRESS

BRIGHTON, G. A.	Mobile, Alabama	Texarkana, Texas
BROOKS, J. S. (J. C.)	Denver, Colorado	
	Longview, Texas	
BROWN, ABE	Shreveport, La.	
BROWN, GOPDON	Oakland, Calif.	
BROWN, PAUL MONROE	San Leandro Calif.	
BROWN, R. A.	Texarkana, Texas	
BUCKEYE FIRE DETECTION SYSTEMS, INC.	San Leandro Calif.	
BUILDERS LUMBER CO.	Cleveland, Ohio	
BULLARD, EARL	Jasper Texas	
BURKE, IRWIN	Memphis, Tennessee	
BURNS, J.	Los Angeles Calif.	
BYRD, CECIL	Miami, Florida	
	Birmingham, Alabama	

C

CAIN APPLIANCE COMPANY	Portland, Oregon	10-30-53
CAIN, EDWIN H.	Portland, Oregon	10-30-53
CAIN HEATING & APPLIANCE CO.	Portland, Oregon	10-30-53
CAIN HEATING COMPANY	Portland, Oregon	10-30-53
CAIN S.	Albuquerque, New Mexico	7-31-53
CALIFORNIA DISPOSAL SALES CO.	Los Angeles, Calif.	10-30-53
CANALIZO, CARLOS	Houston, Texas	7-13-53
CANTWELL, C. J.	Peoria, Illinois	4-24-53
CARBO-TEX OF KANSAS, INC.	Wichita, Kansas	10-30-53
CARMICHAEL, WILLIS	Carbondale, Illinois	10-30-53
CARTER, ARTHUR	South Bend Indiana	11-2-53
CARTER, FRANK	Memphis Tennessee	10-30-53
CARTER HOME IMPROVEMENT CO.	Union City, New Jersey	11-20-53
CARTER, RICHARD	Union City, New Jersey	11-20-53
CAUDLE, THOMAS W.	Greenville, S. C.	7-20-53
CHAGARIS, THEODORE N.	Cleveland, Ohio	11-3-53
CHATELAIN, PAUL IVAN	New Orleans, La.	10-27-53
CLARK, ALBERT A.	Oakland, Calif.	7-20-53
CLEBURNE REALTY CO.	Houston, Texas	7-13-53
COHEN, ERVING	Wichita, Kansas	10-30-53
COHEN, HOWARD	Flint, Michigan	11-20-53
COLEMAN LUMBER CO.	San Antonio, Texas	3-24-53
COLEMAN, W. B.	San Antonio, Texas	3-24-53
COLLINS, DONALD (DON)	Albuquerque, New Mexico	7-31-53
COLLINS, JAMES (JIM)	Memphis, Tennessee	10-30-53
COMMUNITY BUILDING CO.	Englewood New Jersey	11-13-53
COMPTON, ROBERT E.	Seattle, Washington	5-7-53
CONSOLIDATED HOME IMPROVEMENT CO.	New York, New York	3-17-53
CONTINENTAL ROOFING CO.	University City, Mo.	7-31-53
CONTINENTAL SIDING & CONSTRUCTION CO.	University City, Mo.	7-31-53
COONS, ALVERN (or ELVERN) D.	Portland, Oregon	10-30-53
COONS, LEON E.	Portland, Oregon	10-30-53
COOPERATIVE HOME ENTERPRISES	New Orleans, La.	11-20-53
COPP, JOHN W.	Wichita, Kansas	10-30-53
CORCE, ANTHONY W.	San Leandro, Calif.	4-21-53
COWAN, BARNEY	Salt Lake City, Utah	7-31-53
COWAN, BERNARD	Salt Lake City, Utah	7-31-53
CROMWELL, PAT W.	Wichita, Kansas	10-30-53
CROGS, JOHN	San Leandro, Calif.	4-21-53
CUGAT, ARTURO	Jackson Heights, New York, New York	3-17-53
CUTLER, SIDNEY I.	Nashville, Tennessee	10-30-53

D

DARNER, DONALD A.	Albuquerque, New Mexico	7-31-53
DAVIDIAN, DIRAN T.	Richmond, Va.	6-17-53
DAVIDSON CONSTRUCTION CO.	Los Angeles, Calif.	10-21-53
DAVIDSON, PHILIP	Los Angeles, Calif.	10-21-53
DAVIS, JACK A.	Little Rock, Arkansas	
	Baton Rouge, Louisiana	10-29-53

HOUSING ACT OF 1954

1953

	ADDRESS	DATE ISSUED
AM B.	Texarkana, Texas	10-30-53
PLUMBING CO.	San Antonio, Texas	3-24-53
	Pomona, Calif.	6-30-53
ALFRED	Los Angeles, Calif.	10-30-53
ANLEY	Worland, Wyoming	
	Helper, Utah	8-14-53
ILIP (PHIL)	Chicago, Illinois	7-31-53
RICHARD	Peoria, Illinois	4-24-53
YDE E.	San Antonio, Texas	3-24-53
AMES (JIMMY) H.	San Antonio, Texas	3-24-53
MODERNIZERS, INC.	Greenville, S. C.	7-29-53
	Akron, Ohio	10-21-53
IN	Peoria, Illinois	4-24-53
IN J.	Portland Oregon	
	Hermosa Beach Calif.	8-18-53
DUCTION COMPANY	Cleveland, Ohio	10-29-53
	Salt Lake City, Utah	4-22-53
VE R.	Dallas Texas	11-20-53
ALP PAINT CO.	Albuquerque, N. M.	10-30-53
J.	Albuquerque, New Mexico	10-30-53
TI-PRODUCTS CO.	Sacramento, Calif.	10-30-53
MPANY	Los Angeles, Calif.	2-19-53
ES F.	Shreveport, La.	11-18-53
E		
ND SHEET METAL WORKS	Portland, Oregon	9-30-53
RT	Memphis, Tennessee	10-30-53
PING & SIDING COMPANY	Des Moines, Iowa	4-24-53
.	Peoria, Illinois	4-24-53
E.	Memphis, Tennessee	10-30-53
G.	Orange, Texas	3-12-53
G. PLUMBING CO.	Orange, Texas	3-12-53
CONSTRUCTION CO., INC.	Salt Lake City, Utah	4-22-53
ES INSULATION CO.	Rosenburg, Oregon	10-26-53
Y	Salt Lake City, Utah	7-31-53
IAM L.	Rosenburg, Oregon	10-26-53
CONSTRUCTION CO.	New Orleans, La.	3-20-53
F		
Y	Portland, Oregon	10-30-53
N TOM	Shreveport, La.	8-26-53
ULATION CO., INC.	Los Angeles, Calif.	2-11-53
IN H.	Little Rock, Arkansas	4-22-53
ION SERVICE	Painesville, Ohio	3-17-53
OMPANY	Seattle, Washington	5-7-53
ONSTRUCTION CO.	Detroit, Michigan	4-17-53
SPECIALTIES CO.	Flint, Michigan	11-20-53
R.	Salt Lake City, Utah	4-22-53
AUL	Chicago, Illinois	10-30-53
RL C.	San Leandro, Calif.	4-21-53
	Cambridge Mass.	6-30-53
	Wich ta, Kansas	10-30-53
N. ROY	San Leandro, Calif.	4-21-53
RLES	Salt Lake City, Utah	4-22-53
. F. & SONS	Lucedale, Mississippi	10-22-53
AUGHN P.	Lucedale, Mississippi	10-22-53
G		
PMENT CO.	Odessa, Texas	5-15-53
DROW P.	Odessa, Texas	5-15-53
LY	Salt Lake City, Utah	4-22-53
AS	Salt Lake City, Utah	4-22-53
ULATING CORPORATION	Richmond, Virginia	
	Newport, News, Va.	5-28-53
(BILLY)	Memphis, Tennessee	10-30-53
CHARD	Wichita, Kansas	10-30-53

1954

HOUSING ACT OF 1954

NAME	ADDRESS	DATE ISSUED
GIRARD W. (GERRARD)	San Jose, Calif.	10-30-53
GOLDFARB, JACK I.	Cleveland, Ohio	11-3-53
GONZALES, JUSTO (BOB)	San Antonio, Texas	3-24-53
GOODALE, DUNCAN	San Francisco, Calif.	10-30-53
GONDELL, HARRY L.	Jacksonville, Florida St. Louis, Mo.	9-24-53
GORDON, GERALD H.	Peoria, Illinois	6-4-53
GORDON, W.	Rochester, New York	10-30-53
GRAHAM, W.	San Jose, California	10-30-53
GRANAT, ALFRED N.	San Jose, Calif.	3-17-53
GRANT, BART	Miami, Florida	10-27-53
GRAY, WESLEY N.	Portland, Oregon	11-4-53
GREENLEE, ARCHIE W.	East St. Louis, Illinois	4-24-53
	Des Moines, Iowa	
H		
HALL, JOHN	Carbondale, Illinois	10-30-53
HALL, MORRIS NELSON	Highlands, Texas	6-11-53
HANDLER, RICHARD M.	Pittsburgh, Pa.	2-19-53
HARDGRAVE, LLOYD	Greensboro, N. C.	6-30-53
HARRINGTON, MARK	Salt Lake City, Utah	7-31-53
HARRIS, MARC	Salt Lake City, Utah	7-31-53
HARSHMAN, R. R. (Mrs.)	South Bend, Indiana	11-3-53
HARSHMAN, ROBERT R.	South Bend, Indiana	11-3-53
HARSHMAN SUPPLY CO.	South Bend, Indiana	11-2-53
HART, WILLIAM M.	Beckley West Virginia	
HAYDEN, LOU	Lexington, Kentucky	9-30-53
HAYDEN, MORRIS	Salt Lake City, Utah	4-22-53
HAYES, R. L. (BOB)	Salt Lake City, Utah	4-22-53
HEATER, JAMES P.	Houston, Texas	11-13-53
HEBER, G. P.	Baytown, Texas	10-27-53
HENTHORNE, C. E.	Albuquerque, N. M.	10-28-53
HENTHORNE NATIONAL SALES CO.	Oklahoma City, Okla.	11-20-53
HENTHORNE PLUMBING CO.	Oklahoma City, Okla.	11-20-53
HIMMEL, FRANK	Oklahoma City, Okla.	11-20-53
HITCHEN, JOHN S.	Salt Lake City Utah	4-22-53
HOLCOMB, C. S.	Portland, Oregon	10-30-53
HOLMES, OTIS C.	Wichita, Kansas	10-30-53
HOME IMPROVEMENT COMPANY, INC.	Rosenburg, Oregon	10-26-53
HOME IMPROVEMENT CONSULTANTS	Memphis, Tennessee	11-20-53
HEMOCRAFT PRODUCTS CO. INC.	East Orange, New Jersey	11-6-53
HOME MODERNIZATION CO.	Peoria, Illinois	4-24-53
HOME MODERNIZERS OF ARKANSAS	Tacoma, Washington	10-6-53
HOME RECONDITIONING CO	Little Rock, Arkansas	4-22-53
HOMESTEAD IMPROVEMENT CORP.	Albuquerque, N. M.	7-17-53
HOWARD, J. L.	Cambridge, Mass.	6-30-53
	Salt Lake City, Utah	7-31-53
HOWARD, JOSEPH L.	Los Angeles, Calif.	7-31-53
	Salt Lake City, Utah	7-31-53
HOWARD, LENNY	Los Angeles, Calif.	7-31-53
	Salt Lake City Utah	7-31-53
HOWARD, LEONARD	Los Angeles, Calif	7-20-53
	Salt Lake City Utah	6-11-53
HUGHES, CHARLES CLYDE	Los Angeles, Calif	6-17-53
HYE CONSTRUCTION CO.	Houston, Texas	11-13-53
HYLAND, WILLIAM	Richmond, Va.	
	Englewood, New Jersey	
I		
IKNER, JAMES	Memphis, Tennessee	10-30-53
ILLINOIS WHOLESALE MATERIAL CO.	Carbondale, Illinois	10-30-53
INTERNATIONAL SUPPLIERS	Washington, D. C.	11-20-53
INTERSTATE INDUSTRIES	Jacksonville, Florida	11-6-53
J		
JACOBS, DAVID	Cleveland, Ohio	11-20-53
JAMES CONSTRUCTION CO.	Los Angeles, Calif.	11-4-53

HOUSING ACT OF 1954

1955

	ADDRESS	DATE ISSUED
ING COMPANY	Portland, Oregon	10-30-53
	West Sacramento, Calif.	
	Los Angeles, Calif.	3-20-53
I H.	Bitely, Michigan	10-22-53
	Mt. Vernon, Illinois	
	Metropolis, Illinois	
	Paducah, Kentucky	9-1-48
	K	
	Cleveland, Ohio	
	Salt Lake City, Utah	4-22-53
	Cleveland, Ohio	11-3-53
	Memphis, Tennessee	4-22-53
N CO.	Memphis, Tennessee	4-22-53
	Little Rock, Arkansas	2-25-53
	Keokuk, Iowa	10-30-53
E.	Los Angeles, Calif.	10-30-53
iss)	Salt Lake City, Utah	4-22-53
	Salt Lake City, Utah	7-31-53
V.	Memphis, Tennessee	10-30-53
	Salt Lake City, Utah	4-22-53
EY	Salt Lake City, Utah	
	Oakland, Calif.	
	Fresno, Calif.	7-31-53
LIAM	Richmond, Virginia	6-30-53
	Bethpage, N. Y.	5-21-53
TION CO.	Hicksville, N. Y.	5-21-53
CONTRACTING CO.	Hicksville, N. Y.	5-21-53
	Jacksonville, Fla.	11-6-53
	Spokane, Wash.	6-30-53
	Los Angeles, Calif.	6-11-53
	Los Angeles, Calif.	6-11-53
D.	Pittsburgh, Pa.	
	Charleston, W. Va.	2-19-53
	L	
	Los Angeles, Calif.	4-23-53
	Memphis, Tenn.	10-30-53
	Cleveland, Ohio	11-3-53
	Miami, Florida	3-17-53
	Memphis, Tenn.	10-30-53
	Memphis, Tenn.	10-30-53
	Chicago, Illinois	8-14-53
G AND AIR	Cleveland Heights, Ohio	11-20-53
G COMPANY		
	Pittsburgh, Pa.	
	Charleston, W. Va.	2-19-53
	West Sacramento, Calif.	10-22-53
YS) M.	San Francisco, Calif.	5-19-53
JIM)	Spokane, Washington	6-30-53
	Akron, Ohio	10-21-53
	Peoria, Illinois	4-24-53
	M	
	Abilene, Texas	
	Billings, Montana	
	Fargo, North Dakota	
	Shreveport, Louisiana	7-31-53
E	Gary, Indiana	
	Chicago, Illinois	4-22-53
	Norwalk, Calif.	
	Los Angeles, Calif.	4-24-53
	Cambridge, Mass.	6-30-53
PH	Norwalk, Calif.	4-24-53
	Salt Lake City, Utah	3-31-53
N	Detroit, Michigan	4 17 53

1956

HOUSING ACT OF 1954

NAME	ADDRESS	DATE ISSUED
MARTIN, HARVEY, INC.	Los Angeles, Calif.	6-11-53
MARTIN, JOE	Los Angeles, Calif. Norwalk, Calif.	4-24-53
MARTIN, THEODORE A. (T. or T.A.)	Salt Lake City, Utah	7-31-53
MARTINEZ, CHARLES A.	Houston, Texas	10-30-53
MARVAL COMPANY, The	Greensboro, N. C.	6-30-53
MAZZONE, ANGELO	Cleveland, Ohio	11-20-53
MAZZONE, RAYMOND	Cleveland, Ohio	11-20-53
MCDONALD, KELLY	Dallas, Texas Texarkana, Texas	
	Denver, Colorado	7-31-53
MCDONALD, RICHARD JAMES	Kingsville, Texas	
	Bishop, Texas	
	Corpus Christi, Texas	10-30-53
McGAGH, JOHN	Rockford, Illinois	10-27-53
McMAHON, CLAUDE	Jasper, Texas	5-15-53
McLAUGHLIN, HARRY B.	Washington, D. C.	11-20-53
McMILIAN, CLINCH	Jasper, Texas	5-15-53
McVEAGH, J. W.	Houston, Texas	10-30-53
M. D. COMPANY	Worland, Wyoming	
	Pocatello, Idaho	
	Salt Lake City, Utah	
	Roswell, New Mexico	8-14-53
MEADOWS & BROWN REALTY & INVESTMENT CORPORATION	Texarkana, Texas	7-31-53
MEADOWS, R. S.	Texarkana, Texas	7-31-53
MEDLEY, JACK	Worland, Wyoming	
	Pocatello, Idaho	
	Salt Lake City, Utah	
	Roswell, New Mexico	7-14-53
MEDLEY, TED	Worland, Wyoming	8-14-53
MELTON, CECIL P.	Oklahoma City, Okla.	4-24-53
MERLIN CONSTRUCTION CO.	Los Angeles, Calif.	
	Oakland, Calif.	7-28-53
MERLIN, JACK	Los Angeles, Calif.	7-28-53
MERLIN, MORRIS	Los Angeles, Calif.	10-30-53
METCALF, LFE	Albuquerque, New Mexico	11-20-53
MICHIGAN HOME IMPROVEMENT CO.	Flint, Michigan	2-5-53
MIDWESTERN INSULATION, INC.	Sioux Falls, S. D.	10-30-53
MILLER, CHAS. E.	San Diego, Calif.	3-17-53
MILLER, JACK	Miami, Florida	7-31-53
MILTON CONSTRUCTION CO.	Chicago, Illinois	11-9-53
MODERN HOME IMPROVEMENT COMPANY	Mt. Olive, Illinois	10-30-53
MONAHAN, TOM	Wichita, Kansas	2-19-53
MONK, ALFRED R.	Los Angeles, Calif.	10-30-53
MOODY, LEE	Carbondale, Illinois	10-29-53
MOORE'S CONSTRUCTION CO.	Cleveland, Ohio	10-29-53
MOORE, DON	Cleveland, Ohio	10-30-53
MORGAN, JOHN W., JR.	Los Angeles, Calif.	10-30-53
MORGAN, JOHN W. CONSTRUCTION CO.	Los Angeles, Calif.	11-20-53
MORIN, JOSEPH	Uxbridge, Mass.	7-17-53
MORTON, MICHAEL F.	Albuquerque, New Mexico	10-30-53
MOSS, RONALD MARTIN	Muskegon, Michigan	11-13-53
MOTT, HAROLD	Englewood, New Jersey	10-30-53
MURPHY, W.	San Jose, California	
MURRELL, ROBERT W. W.	Richmond, Virginia	5-28-53
	Newport News, Virginia	10-30-53
MUSKEGON EXTERIOR DECORATING CO.	Muskegon, Michigan	
N		
NASTAV, L. D.	Los Angeles, Calif.	10-30-53
NATION WIDE HEATING COMPANY	Seattle, Washington	2-25-53
NATIONAL FIRE-BRITE INDUSTRIES, INC.	Chicago, Illinois	3-17-53
NELSON, RAY	Miami, Florida	7-17-53
NEW MEXICO HOME IMPROVEMENT CO.	Albuquerque, New Mexico	11-13-53
NIBERT, LOUIS	Houston, Texas	4-21-53
NIGRO, ANGELO	San Leandro, Calif.	10-30-53
NO-BLADÉ DISPOSER CO.	San Francisco, Calif.	

HOUSING ACT OF 1954

1957

	ADDRESS	DATE ISSUED
OVEMENT CO.	Cleveland, Ohio	11-3-53
DETECTOR CO.	Spokane, Washington	6-30-53
	Tulsa, Oklahoma	
	Texarkana, Texas	
	Pt. Smith, Arkansas	
	Kansas City, Missouri	7-31-53
	O	
	Greensboro, N. C.	6-30-53
	Salt Lake City, Utah	7-31-53
	Chicago, Illinois	7-31-53
	Chicago, Illinois	7-31-53
	Chicago, Illinois	7-31-53
	Wichita, Kansas	10-30-53
	Portland, Oregon	4-30-45
	Portland, Oregon Seattle, Washington	4-30-45
	Portland, Oregon	10-30-53
& SUPPLY CO.	Memphis, Tennessee	10-30-53
	Memphis, Tennessee	10-30-53
	Portland, Oregon	4-30-45
	Portland, Oregon	10-30-53
(Mrs. JOHN M.)	Portland, Oregon	4-30-45
	Portland, Oregon	10-30-53
	P	
TION CO.	Seattle, Washington	10-30-53
	Seattle, Washington	
	East Orange, New Jersey	10-30-53
	Salt Lake City, Utah	3-31-53
	Peoria, Illinois	4-24-53
	Los Angeles, Calif.	3-27-53
CE F.	Spokane, Washington	6-30-53
	Jacksonville, Florida	11-6-53
PROVEMENT CO.	Houston, Texas	7-13-53
H	San Antonio, Texas	3-24-53
COATING CO.	Pittsburgh, Pa.	
	Charleston, W. Va.	2-19-53
EVEPORT CO.	Shreveport, La.	11-18-53
TEXARKANA	Texarkana, Texas	10-30-53
	Albuquerque, New Mexico	7-31-53
	Oakland, Calif.	7-29-53
	Portland, Oregon	10-30-53
PROVEMENT CO., INC.	Miami, Florida	3-17-53
I COMPANY	Newark, New Jersey	3-17-53
	Albuquerque, New Mexico	7-31-53
	Painesville, Ohio	3-17-53
	Painesville, Ohio	3-17-53
	Portland, Oregon	10-30-53
OMPANY	Beaumont, Texas	4-22-53
	Beaumont, Texas	4-22-53
	Cairo, Illinois	11-6-53
ONSTRUCTION COMPANY	Salem, Missouri	11-6-53
NORMA	Cairo, Illinois	11-6-53
	Portland, Oregon	10-30-53
	Portland, Oregon	10-30-53
& ROOFING CO.	Carbondale, Illinois	10-30-53
	Q	
	Birmingham, Alabama	11-20-53
	R	
IND BOILER COMPANY	Ashtabula, Ohio	11-20-53
IE P.	Tacoma, Washington	10-6-53
	San Francisco, Calif.	
	Cleveland, Ohio	
	Salt Lake City Utah	6-11-53
DUCTION CO.	Oakland, Calif.	7-29-53
TING & PAINTING CO.	Oakland, Calif.	7-29-53
I M.	Los Angeles, Calif.	6-11-53

NAME	ADDRESS
RICHMOND, PHILIP	Los Angeles, Calif.
RICHMOND, RUTH	Los Angeles, Calif.
ROBERTS, CHARLES	Salt Lake City, Utah
ROBERTSON, ARDEN (or DEAN)	Mt. Pleasant, Utah
ROBERTSON COMPANY, The	Mt. Pleasant, Utah
ROMERO, PETE	San Leandro, Calif.
ROSS, HERBERT	Salt Lake City Utah
ROSSI, JOSEPH	Grayson, Kentucky
	Charleston, West Virginia
ROTMAN, BENJAMIN	Los Angeles, Calif.
RUDY, HERMAN M.	Peoria, Illinois
S	
SACKS, A. (ABRAHAM)	San Antonio, Texas
SACKS, A. AND COMPANY	San Antonio, Texas
SACKS, A. PLUMBING	San Antonio, Texas
SAMMONS, GEORGE	Memphis, Tennessee
SAMUEL, MOE (M)	Chicago, Illinois
	Abilene, and Dallas, Texas
	Shreveport, Louisiana
	Texarkana, Texas
SANDIDGE, HAROLD E.	Owensboro, Kentucky
SAUL, JAMES R.	Seal Beach, Calif.
SCHENK, SAMUEL O.	San Francisco, Calif.
	Cleveland, Ohio
SCHIFFLER, CHARLES A.	Salt Lake City, Utah
SCHIFFLER, CHARLES E.	Toledo, Ohio
SCHIFFLER IMPROVEMENT CO.	Toledo, Ohio
SCHLACKETT, HARRY	Toledo, Ohio
SCHMOE, FRANK	Salt Lake City, Utah
SCHONCITE, ALVIN	Fairland, Indiana
SCHWARTZ, ARLENE	Los Angeles, Calif.
SCOTT, FOREST	Los Angeles, Calif.
SCOTT, WILLIAM KIRKENDALL	San Leandro, Calif.
SHANK, SAM	Richmond, Virginia
	San Francisco, Cal f.
	Cleveland, Ohio
	Salt Lake City Utah
SHAW, AL	Los Angeles, Cal f
SHEELY, A. K.	Spokane, Washington
SHENKELMAN, SAMUEL	San Francisco, Calif.
	Cleveland, Ohio
SHIELDS, J. J.	Salt Lake City Utah
SHIRLEY, AZOR E.	Memphis, Tennessee
SHIRLEY BROTHERS BUTANE	DeRidder, Louisiana
SHIRLEY, JOHN A.	DeRidder, Louisiana
SHIRLEY LUMBER YARD	DeRidder, Louisiana
SHIRLEY, S. E.	DeRidder, Louisiana
SILENT MAID PRODUCTS CO.	Los Angeles Calif.
SILVER, SAM	Jacksonville, Florida
SILVERSTEIN, SAM	Jacksonville, Florida
SIMMS, H.	Charleston, W. Va.
SIMS, JOSEPH	West Sacramento, Calif.
SIVERS, JOSEPH W.	Carbondale, Illinois
SMITH, ALEX NEEL	Birmingham, Alabama
SOLAMON, LEE B., JR.	Salt Lake City Utah
SPENCER, ISAAC MARION	Memphis, Tennessee
SPENCER, MARION I. (or J)	Memphis, Tennessee
STAGGS, CECIL E.	Sacramento, Calif.
STANGA, HOWARD	Covington, Louisiana
STANLEY, ALICE M.	Houston Texas
STANLEY, JAMES	Los Angeles, Calif.
STARKE, MILTON W.	Chicago, Illinois
STAINE, HOWARD	Albuquerque, New Mexico
STATIS, JOHN C.	Tulsa, Oklahoma

HOUSING ACT OF 1954

1959

ADDRESS	DATE ISSUED
ERY	Salt Lake City, Utah 7-31-53
LEWIS	Salt Lake City, Utah
	Los Angeles, Calif. 3-31-53
t. E.	Anderson, Indiana 10-30-53
J	Salt Lake City, Utah 3-31-53
GEORGE	St. Matthews, Kentucky 4-24-53
GEORGE	Los Angeles, Calif. 4-23-53
PHILIP	Cambridge, Mass. 6-30-53
V. A.	Greensboro, N. C.
	Memphis, Tennessee 6-30-53
	Salt Lake City Utah 4-22-53
H.	Portland Oregon 9-30-53
OF JACKSONVILLE	Jacksonville Florida
	Peoria, Illinois 9-24-53
ED	Salt Lake City, Utah 7-31-53
	Nashville, Tennessee 10-30-53
ED	Salt Lake City, Utah 4-22-53
(MILTON)	Nashville, Tennessee 10-30-53
PLUMBING & HEATING CO.	Baltimore, Maryland 11-2-53
DONALD A.	Sioux Falls, S. Dakota 2-5-53
CONSTRUCTION CO.	Los Angeles, Calif. 4-23-53
ART	Cleveland, Ohio
	Salt Lake City, Utah 4-22-53
SAM	Salt Lake City, Utah 4-22-52
T	
(	Los Angeles, Calif. 3-27-53
SA	Memphis, Tennessee 11-20-53
SA COMPANY	Memphis, Tennessee 11-20-53
SA HEATING & PLUMBING CO.	Memphis, Tennessee 11-20-53
REMODELING COMPANY	Dallas, Texas 11-20-53
DEER COMPANY	Odessa, Texas 5-15-53
FRANCIS H.	Salt Lake City, Utah 7-31-53
CONSTRUCTION CO.	Mt. Vernon, Illinois
	Metropolis, Illinois
	Paducah, Kentucky 8-26-53
H.	San Antonio, Texas 3-24-53
ION	Philadelphia, Pa. 7-10-53
U	
LDERS & SUPPLY CO.	Fairland, Indiana 10-30-53
IE PRODUCTS	Levittown, New York 11-20-53
RACTING & SUPPLY CO.	Keokuk, Iowa 10-30-53
V	
	Baton Rouge, Louisiana 11-30-53
	Camden, Arkansas
C.	Salem, Oregon 8-18-53
ILATION CO.	Salem, Oregon 8-18-53
W	
	Portland, Oregon
	Burbank, Calif. 8-18-53
RALPH	Carbondale, Illinois 10-30-53
L. D.	San Jose California 10-30-53
EDWARD S. (SAUL or SOL)	Albuquerque, New Mexico 7-17-53
TD L.	Abilene, Texas
	Denver, Colorado
	Durango, Colorado Texarkana, Texas 7-31-53
OWARD	San Leandro, Calif. 4-21-53
MARK F.	Salem, Oregon
	Rosenburg, Oregon 8-18-53
IRVING	Los Angeles, Calif. 11-9-53
GE	Fairland, Indiana 10-30-53
IRWIN	Los Angeles, Calif. 10-28-53
KASRIL	Salt Lake City, Utah 7-31-53

1960

HOUSING ACT OF 1954

NAME	ADDRESS	DATE ISSUED
WEINROTH, S. E.	Salt Lake City, Utah	7-31-53
WEISS, MARVIN	Greensboro, N. C.	6-30-53
WHITEMARCH, HAROLD	West Sacramento, Calif.	10-22-53
WIEDIGER, ELMER	Abilene, Texas Texarkana, Texas	7-31-53
WILKINSON LUMBER CO.	Bitely, Michigan	10-22-53
WILKINSON, MARSHALL	Bitely, Michigan	10-22-53
WILLIAMS CONTINENTAL COMPANY	Portland, Oregon	10-30-53
WILLIAMS, J. I. M.	Portland, Oregon	10-30-53
WILLIAMS, J. W.	Portland, Oregon	10-30-53
WILLIAMS, WAYNE	Fairland, Indiana	10-30-53
WINSETT, A. W.	Memphis, Tennessee	10-30-53
WINSLOW, JERRY	Chicago, Illinois	10-29-53
WITHERINGTON, ROY L.	University City, Mo.	7-31-53
WITT, REGIS P.	Greenville, S. C.	7-29-53
WOLSH, BENJAMIN A.	Los Angeles, Calif.	2-19-53
WOOD, CHESTER R.	St. Louis, Missouri	
	Louisville, Kentucky	3-17-53
WOOD, E. C.	St. Louis, Missouri	
	Louisville, Kentucky	3-17-53
WOOD, ELBERT	St. Louis, Missouri	
	Louisville, Kentucky	3-17-53
WOOD, JACK	St. Louis, Missouri	
	Louisville, Kentucky	3-17-53
WOODWARD, L. L.	Greenville, S. C.	7-29-53
WORLD WIDE FURNACE COMPANY	Seattle, Washington	10-30-53
WORTH, AL	Los Angeles, Calif. Salt Lake City, Utah	7-31-53
WYNN, HYMAN (or HI or NAT)	Nashville, Tennessee Little Rock, Ark.	11-1-50
Y		
YOUNG, ERNEST P.	Baltimore, Maryland	11-2-53
Z		
ZYCH, LOUIS	Oakland, Calif.	7-29-53

HOUSING ACT OF 1954

1961

ent list of dealers subject to the provisions of regulation VIII, sec. 2—
Dec. 1, 1953, through Apr. 21, 1954

Name	Address	Date issued
A		
uction Co.	Newark, N. J.	12-4-53
lete Home Service	St. Louis, Mo. Memphis, Tenn.	12-1-53
nstruction Co.	Muncie, Ind.	3-24-54
uction Co.	Kirkwood, Mo.	1-18-54
ome Improvement Co.	Los Angeles, Calif.	4-19-54
V.	Texarkana, Tex.-Ark.	1-28-54
ilding Co.	Birmingham, Ala.	12-30-53
Alarm Co.	Anchorage, Alaska	2-17-54
. W.	Texarkana, Ark.-Tex. Portland, Oreg. Fairbanks, Alaska. Phoenix, Ariz.	3-3-54
	Columbus, Ohio	12-28-53
	Texarkana, Ark.-Tex.	3-3-54
uction Co.	Atlanta, Ga.	12-29-53
(or A.)	New Orleans, La.	4-21-54
ilding Co.	Birmingham, Ala.	12-16-53
any of Lansing	Lansing, Mich.	12-28-53
Co.	Jacksonville, Fla.	1-29-54
ilip.	Oakland, Calif.	12-18-53
mes.	Newark, East Rutherford, and East Orange, N. J.	1-22-54
ow	Caruthersville, Mo.	2-26-54
eth D.	Caruthersville, Mo.	2-26-54
ney.	Albuquerque, N. Mex.	1-19-54
B		
or D.	Greenwood, S. C.	2-17-54
ss	Salt Lake City, Utah	3-11-54
oseph A.	Magnolia, Miss.	2-23-54
J.	Columbus, Ohio	12-28-53
	Albuquerque, N. Mex.	12-18-53
	Albuquerque, N. Mex.	12-18-53
me Supply Co.	Salt Lake City, Utah	3-11-54
amuel	Carle Place, Westbury, N. Y.	3-10-54
ack	Los Angeles, Calif.	4-19-54
r. a. Johnny Bishop, J. H. Shelley, addox.	Bossier City and Shreveport, La. Bir- mingham, Ala. Troy and Albany, N. Y.	4-8-54
John Garland	Port Arthur, Tex.	2-30-54
William B.	Oakland, Calif.	2-17-54
ulation Co.	Athens, Ala.	2-17-54
ph (or Joe)	Oakland, Calif.	4-19-54
	Oakland, Calif.	4-19-54
am	Oakland, Calif.	2-17-54
Richard	Texarkana, Ark.-Tex. Tulsa, Okla.	3-3-54
rman	South Bend, Ind. Chicago, Ill.	4-8-54
	Columbus, Ohio	12-28-53
ald T.	Muncie, Ind.	3-24-54
J.	Oakland, Calif.	4-15-54
J.	Oakland, Calif.	4-15-54
	Oakland, Calif. Tulsa, Okla. Tex- arkana, Ark.-Tex. Dallas, Tex. Wichita, Kans.	3-3-54
M.	Texarkana, Ark.-Tex.	3-3-54
rtin (Max)	Atlanta, Ga.	12-29-53
old W.	Elmira, N. Y.	4-12-54
C.	Oakland, Calif.	4-18-54
C		
style Stone Co., Inc.	Oakland and Castro Valley, Calif.	12-18-53
Water Service	Los Angeles, Calif.	4-19-54
E. N., Co., Inc. (engineering and t).	Johnson City, Tenn.	1-19-54
Edward Nelma	Johnson City, Tenn.	1-19-54
Frank	Columbus, Ohio	12-28-53
Wills	Carbondale, Ill.	12-1-53
ames	Elmira, N. Y.	4-12-54
J.	Chicago, Ill.	4-19-54
ilding Materials Co.	Empire City and Fremont, Nebr.	12-30-53
William	Elmira, N. Y.	4-12-54
Construction Co.	Champaign, Ill.	4-12-54
r.	Oakland, Calif.	4-15-54
C. L.	Pittsburgh, Pa.	12-28-53
ohn C.	Kalamazoo, Mich.	4-12-54
Improvement Co.	Atlanta, Ga.	12-29-53
y E.	Oakland, Calif.	4-15-54
	Los Angeles, Calif.	3-9-54

*Supplement list of dealers subject to the provisions of regulation VIII, sec.
Dec. 1, 1953, through Apr. 21, 1954—Continued*

Name	Address	Date
Clark, R.	Oakland, Calif.	4-11-54
Clark, Thomas W.	Los Angeles, Calif.	3-4-54
Cohen, Isadore, M.	Des Moines, Iowa	12-20-53
Cohen, James Westley	Baltimore, Md.	12-1-54
Colonial Construction Co.	Atlanta, Ga.	12-20-53
Colorcrete Co.	Kalamazoo, Mich.	4-15-54
Colvin Construetion Co.	Jeffersonville, Ind.	3-15-54
Colvin, Taylor L.	Jeffersonville, Ind.	3-15-54
Construction Engineers	Salt Lake City, Utah	3-15-54
Consumers Construction Co.	South Bend, Ind. Chicago, Ill.	4-6-54
Cook, James Starr	Atlanta, Ga.	12-20-53
Cooper, Robert	Los Angeles, Calif.	3-4-54
Cotter Insulation & Weather stripping Co.	Chickasha, Okla.	3-15-54
Cotter, Vernon L.	Chickasha, Okla.	3-15-54
Cozy Home Improvement Co.	Detroit, Mich.	2-17-54
Crescent Construction Co.	Atlanta, Ga.	12-20-53
Currasco, Lewis (or L.)	Oakland, Calif.	4-15-54
Cutall, Louis	Rochester, N. Y.	3-10-54
D		
Daniels, John J.	Fort Des Moines, Iowa	4-12-54
Danilow, Station B.	Houston, Tex.	1-19-54
Danzer, Walter H.	Sacramento, Calif.	12-20-53
Davis, Sam	Atlanta, Ga.	3-10-54
Dayton Weather-Tite, Inc.	Dayton, Ohio	1-8-54
Dease, J. Edmund (James E. or J. E.)	Dayton, Ohio	4-21-54
De Shone, Nathaniel Hertle	Oakland, Calif.	3-24-54
Diamond Homes, Inc.	Springfield, Mass.	3-24-54
Diamond House Specialties Corp.	Springfield, Mass.	3-24-54
District Home Modernizers	College Park, Md.	2-8-54
Donner, Leo	College Park, Md.	4-12-54
Dovak, F. Reagan	Atlanta, Ga.	3-10-54
Dowell, M. C.	Culver City, Calif.	4-19-54
Durante Co.	Bellmore, N. Y.	3-10-54
Durante, Eugene	Bellmore, N. Y.	3-10-54
Dutra, Manuel J.	Sacramento, Calif.	12-20-53
E		
Ector, Raymond M.	Atlanta, Ga.	1-8-54
Edwards, Billy	Texarkana, Ark.-Tex.	3-3-54
Evans, E. K. (or Keith)	Salt Lake City, Utah	3-11-54
F		
Factory Materials Co.	Zanesville, Ohio	4-8-54
Farris, William Samuel	Miami, Fla.	3-3-54
Federal Construction Co.	Fort Des Moines, Iowa	4-12-54
Federal Home Improvers	Albuquerque, N. Mex.	12-18-53
Feldman, Maurice H.	Pittsburgh, Pa. Zanesville, Ohio	4-8-54
Findley, John V.	Syracuse, N. Y.	4-8-54
Fooksman, Alvin C.	Miami, Fla.	3-3-54
Forman, John J.	New Orleans, La.	4-21-54
Forrest, Alvin C.	Miami, Fla.	3-3-54
Freeman, Al.	Los Angeles	1-26-54
Fulkerson, Martin M.	Flint, Mich. Jacksonville, Fla.	1-29-54
G		
Galpren, Alvin B.	Los Angeles, Calif.	4-10-54
Gamache, Leo P.	Elmira, N. Y.	4-12-54
General Builders, Inc.	Des Moines, Iowa	12-20-53
Girard, Eugene F.	Beverly Hills, Calif.	1-21-54
Gober, D. M.	Birmingham, Ala.	12-30-53
Gober, James Maurice	Birmingham, Ala.	12-30-53
Gochman, Murray	Far Rockaway, N. Y.	12-18-53
Goldberger, Melvin T.	Knoxville, Tenn.	12-18-53
Granette of Miami	Miami, Fla.	3-3-54
Gray, Richard	Oakland, Calif.	4-15-54
Griffin, Harry	New Orleans, La.	4-21-54
H		
Hall, John	Carbondale, Ill.	12-1-53
Hardin, Daniel	Tacoma, Wash.	12-1-53
Harmony House Home Improvement Co.	Rochester, N. Y.	2-23-54
Harshone Co., Inc.	Canton, Ohio	4-19-54
Hart Construction Co.	San Diego, Calif.	2-9-54
Hart, E. J.	Texarkana, Ark. Tex.	3-3-54
Hart, Raymond C.	San Diego, Calif.	2-9-54
Haynes, Donna H. (Mrs. Milton C.)	Cincinnati, Ohio. Portland, Oreg. Louisville, Ky. Indianapolis, Ind.	12-20-53

HOUSING ACT OF 1954

1963

it list of dealers subject to the provisions of regulation VIII, sec. 2—
Dec. 1, 1953, through Apr. 21, 1954—Continued

Name	Address	Date issued
I., Co., Inc.	Cincinnati, Ohio. Portland, Oreg.	12-28-53
on C. or M. C. or M.	Louisville, Ky. Indianapolis, Ind.	12-28-53
on Covington.	Cincinnati, Ohio. Portland, Oreg.	12-28-53
I (or B.)	Louisville, Ky. Indianapolis, Ind.	4-15-54
iel A.	Cincinnati, Ohio.	4-14-54
on Lee	Oakland, Calif.	1-18-54
7.	Tulsa, Okla.	1-21-54
ries	Long Beach, Calif.	4-15-54
truction & Engineering Co., Inc.	Indianapolis, Ind. East St. Louis, Ill.	2-26-54
B.	Oakland, Calif.	1-14-54
	South Bend, Ind.	4-15-54
	Flint, Mich.	4-15-54
	Oakland, Calif.	4-15-54
	Oakland, Calif.	4-15-54
I		
ssale Material Co.	Carbondale, Ill.	12-1-53
ating Co.	Baltimore, Md.	12-1-53
J		
W	West Springfield, Mass.	3-19-54
L.	West Covina, Calif.	1-12-54
rd J.	Houston, Tex.	1-29-54
iel.	Tacoma, Wash.	12-1-53
	Oakland, Calif.	12-18-53
uel Holland.	Memphis, Tenn.	4-8-54
lam R.	San Antonio, Tex.	2-10-54
ian S.	Tulsa, Okla.	2-26-54
K		
ates, Inc.	Pallsade Park, N. J.	4-21-54
an	Atlanta, Ga.	3-10-54
G.	Los Angeles, Calif.	1-21-54
y M.	Eos Angeles, Calif.	1-21-54
Gerald.	Onk Park, Mich.	2-17-54
s V.	Memphis, Tenn. St. Louis, Mo.	12-1-53
d.	Des Moines, Iowa.	12-29-53
ilton L.	Springfield, Mass.	3-24-54
c.	Lansing, Mich.	12-28-53
	Lansing, Mich.	12-28-53
	Hayward, Calif.	1-15-54
	Hayward, Calif.	1-15-54
I D.	East Detroit, Mich.	4-21-54
. J. Frank	Pallsade Park, N. J.	4-21-54
L		
nce Co.	Long Beach, Calif.	4-13-54
ams Construction Co.	Amarillo, Tex.	12-28-53
action Co.	Amarillo, Tex.	12-28-53
	Amarillo, Tex.	12-28-53
L.	Salt Lake City, Utah.	3-12-54
	Tenarkana, Ark.-Tex.	3-3-54
ore J.	Los Angeles, Calif.	4-19-54
struction Co., Inc.	Ironwood, Mich.	3-24-54
	Cincinnati, Ohio. Louisville, Ky. In-	12-28-53
nstruction Co.	dianapolis, Ind. Portland, Oreg.	
V.	San Antonio, Tex.	2-10-54
e.	Athens, Ala.	2-17-54
	Oakland, Calif.	4-19-54
M		
	Bossier City and Shreveport, La. Bir-	4-8-54
	mingham, Ala. Troy and Albany,	
	N. Y.	
A.	New Orleans, La.	4-21-54
ouis J.	Vineland, N. J.; Millville, N. J.	3-10-54
Idie.	Los Angeles, Calif.	1-21-54
an L.	Los Angeles, Calif.	4-19-54
rmen.	Rochester, N. Y.	3-23-54
. H.	Hialeah and Miami, Fla.	2-12-54
Charles Harris.	Hialeah and Miami, Fla.	2-12-54
ey.	Columbus, Ohio.	12-28-53
ohn P.	Oakland, Calif.	4-15-54
rank.	Los Angeles, Calif.	1-29-54
ohn D.	Fort Des Moines, Iowa.	4-12-54
nstruction Co.	Memphis, Tenn.	4-8-54
ntracting Co.	Memphis, Tenn.	4-8-54
rietta (Miss)	Memphis, Tenn.	4-8-54
E., Jr.	Memphis, Tenn.	4-8-54
ome Improvement	Memphis, Tenn.	4-8-54

*Supplement list of dealers subject to the provisions of regulation VIII, sec. 2—
Dec. 1, 1953, through Apr. 21, 1954—Continued*

Name	Address	Date issued
Melvin, Dan	College Park, Md.	3-5-54
Meredith, Jack	Fort Smith, Ark.	1-7-54
Mid City Construction Co., Inc., of Ohio	Dayton, Ohio	4-25-54
Miller, Irving	Springfield, Mass.	2-24-54
Milowitz, Jack	Fort Smith, Ark.	1-7-54
Mitchell, Lawrence	Atlanta, Ga.	3-10-54
Mitchell, Mike	Oakland, Calif.	12-18-53
Modern Garages	East St. Louis, Ill. Indianapolis, Ind.	1-23-54
Modern Heating Plumbing Co.	Chicago, Ill.	4-6-54
Modern Improvement Co.	Millville, N. J.	3-10-54
Moody, Lee	Carbondale, Ill.	12-1-53
Moore, D. K.	Oklahoma City, Okla.	1-13-54
Morrow, W. E.	Tulsa, Okla.	4-21-54
Moss, Julius	Jeffersonville, Ind.	2-12-54
Mulholland, Lewis J.	Millville, N. J.	3-10-54
N		
National Engineers	West Springfield, Mass.	3-19-54
National Weather Seal Co.	Oakland, Calif.	3-17-54
Nelson, Myron (or M.)	Oakland, Calif.	4-19-54
Noblitt, Thomas	Athens, Ala.	2-17-54
O		
Oliver, Byard B.	Freewater, Oreg. College Pl., Wash. Coeur d'Alene, Idaho.	2-17-54
P		
Parker, J.	Oakland, Calif.	4-15-54
Parr, Jack H.	Atlanta, Ga.	12-30-53
Paulen, Joseph	Miami, Fla.	2-3-54
Pearson, J. J.	Louisville, Ky.	3-16-54
Pearson, John James	Louisville, Ky.	3-16-54
Peeler, Walter	Caruthersville, Mo.	3-26-54
Peninsular Burner Corp.	Far Rockaway, N. Y.	12-18-53
Peoples Construction Co.	Pittsburgh, Pa.	4-13-54
Pfeifer, Fred C., Jr.	Syracuse, N. Y.	4-4-54
Pittsburgh Brick Seal Co.	Pittsburgh, Pa.	12-28-53
Plymouth Rock Wool Insulation Co.	Sacramento, Calif.	12-30-53
Pollock, Don F.	Empire City, Fremont, Nebr.	12-30-53
Pollock, Don F. Properties, Inc.	Empire City, Fremont, Nebr.	12-30-53
Pollock, Samuel V.	South Bend, Ind.	2-25-54
Portnoy, A. H.	Beverly Hills, Calif.	1-21-54
Preferred Construction, Inc.	Miami, Fla.	3-3-54
Pyramid Lumber & Roofing Co.	Carbondale, Ill.	12-1-53
Q		
Quayle Heating Co.	Lyndhurst, Ohio	1-9-54
Quayle, Joseph T.	Lyndhurst, Ohio	1-9-54
Quayle & Krause Co.	Lyndhurst, Ohio	1-9-54
R		
Rabkin, Manny	Charleston, W. Va.	2-20-54
Ramhler Co.	Carle Place, Westbury, N. Y.	3-10-54
Raughley, Eugene Erwin	Birmingham, Ala.	12-30-53
Raughley, Pete	Birmingham, Ala.	12-30-53
Raymond, The, Co.	Atlanta, Ga.	1-4-54
Raymond, Inc.	Atlanta, Ga.	1-4-54
Reliance Construction Co.	Charleston, W. Va.	2-20-54
Re-Nu-It Corp.	Jacksonville, Fla. Flint, Mich.	1-29-54
Richards, A.	Oakland, Calif.	4-15-54
Rist, Harold T.	Des Moines, Iowa	3-26-54
Roberts, Charles	Oakland, Calif.	2-17-54
Robins, Lester J. & P. Robins	Washington, D. C.	2-4-54
Robinson & Co.	Washington, D. C.	2-4-54
Robinson, Lester J., Jr.	Washington, D. C.	4-12-54
Robinson, Lester J., Sr.	Washington, D. C.	4-12-54
Rogers, Norman	Miami, Fla.	2-3-54
Rogers, Robert, Jr.	Texarkana, Ark.-Tex.	3-3-54
Rosenbain, Norman	Miami, Fla.	3-3-54
Rovin Contracting Co.	St. Louis, Mo.	1-19-54
Rovin, Morris D.	St. Louis, Mo.	1-19-54
Rovin, Morris D., Co.	St. Louis, Mo.	1-19-54
S		
Salzman, Arthur H.	Zanesville, Ohio. Pittsburgh, Pa.	4-6-54
San Diego Construction Co.	San Diego, Calif.	2-8-54
Saranto, John	Medford, Oreg.	3-30-54
Saunders, Harold	College Park, Md.	4-12-54
Sayre, Carlis G.	New Brighton, Pa.	12-18-53
Schoenberg, Harry	Canton, Ohio	4-21-54

HOUSING ACT OF 1954

1965

ment list of dealers subject to the provisions of regulation VIII, sec. 2—
Dec. 1, 1953, through Apr. 21, 1954—Continued

Name	Address	Date Issued
Longworth	Newark, N. J.	12-4-53
Construction Co.	Hialeah and Miami, Fla.	2-12-54
H.	Bossier City and Shreveport, La. Birmingham, Ala. Troy and Albany, N. Y.	4-8-54
seph W.	Carbondale, Ill.	12-1-53
Henry	Los Angeles, Calif.	1-28-54
hard D.	Caruthersville, Mo.	3-28-54
Edward C.	Dayton, Ohio	1-8-54
r of California	Hayward, Calif.	1-15-54
Martin S.	San Diego and El Cajon, Calif.	2-9-54
t Fire Detection Service	Oklahoma City, Okla.	1-13-54
pply Co., Inc.	Knoxville, Tenn.	12-18-53
rry C.	Vista, Calif.	4-9-54
nthony J.	Oakland, Calif.	2-17-54
Alarm Co.	Freewater, Oreg. College Place, Wash. and Couer d'Alene, Idaho.	2-17-54
f & Siding Co., Inc.	Los Angeles, Calif.	3-9-54
o.	Oakland, Calif.	2-23-54
mes N.	Oakland, Calif.	2-23-54
ers, Inc.	Los Angeles, Calif.	1-21-54
er of Fresno	Fresno, Calif.	1-21-54
er of Oakland	Oakland, Calif.	1-21-54
er of San Diego	San Diego, Calif.	1-21-54
of Roofing Co.	Houston, Tex.	1-19-54
nsulation Co.	Ironwood, Mich.	3-24-54
onald E.	Salt Lake City, Utah	3-11-54
erald L.	Oak Park, Mich.	2-17-54
oseph	Springfield, Mass.	3-24-54
Aluminum Window Co.	Syracuse, N. Y.	4-8-54
T		
t. E., Construction Co.	Kirkwood, Mo.	1-18-54
Robert E.	Kirkwood, Mo.	1-18-54
Corp.	Elmira, N. Y.	4-12-54
enry J.	Oakland, Calif.	4-15-54
t Products Corp.	Elmira, N. Y.	4-12-54
U		
ump & Well Supplies	Magnolia, Miss.	2-23-54
ne Improvement Co.	Philadelphia, Pa. and Newark, N. J.	4-13-54
V		
Kenneth	Buffalo, N. Y.	3-10-54
Theodore (Ted)	Champaign, Ill.	4-12-54
J.	Oklahoma City, Okla.	1-13-54
W		
f.	Oakland, Calif.	4-15-54
Ralph	Carbondale, Ill.	12-1-53
len.	New Orleans, La.	4-21-54
lenn A.	Hayward, Calif.	1-15-54
Milton	Brooklyn, N. Y.	1-22-54
wis E.	Philadelphia, Pa., Newark, N. J.	4-13-54
Milton	Oakland and Los Angeles, Calif.	12-18-53
Witchel (Mithcell)	Oakland, Calif.	12-18-53
aries D.	Atlanta, Ga.	3-10-54
Enterprises	Hayward, Calif.	1-15-54
Home Constructica Co.	Los Angeles, Calif.	1-28-54
Roofing & Siding Co.	Buffalo, N. Y.	3-10-54
l, Bernard R.	Long Beach, Calif.	4-13-54
Construction Co.	Amarillo, Tex.	12-28-53
George V.	Birmingham, Ala.	12-30-53
James	Amarillo, Tex.	12-28-53
William	Texarkana, Ark.-Tex.	3-3-54
H. I.	Oakland, Calif.	12-18-53
sk.	Des Moines, Iowa	12-29-53
old.	Oakland, Calif.	2-23-54
Kathryn	Texarkana, Ark.-Tex. Shreveport, La.	3-3-54
Robert	Brooklyn, N. Y.	1-22-54
f. B.	Oakland, Calif.	4-15-54
se, Co.	Oakland, Calif.	4-15-54
, Michael	Pittsburgh, Pa.	4-12-54
Y		
Richard J.	Houston, Tex.	1-29-54
Richard J.	Houston, Tex.	1-29-54
braham	Chicago, Ill.	4-8-54
rnice	Chicago, Ill.	4-8-54
re C.	Houston, Tex.	1-19-54

Supplement list of dealers subject to the provisions of regulation VIII, sec. 2, Dec. 1, 1953, through Apr. 21, 1954—Continued

Name	Address	Date
Z		
Zukerman, Ben	San Francisco, Calif.	
Zurk, Alex (or Zuk)	Newark, N. J., East Rutherford, and East Orange, N. J.	

Dealers no longer subject to the provisions of regulation VIII, sec. 2, Jan. 1953, through Apr. 22, 1954

Name	Address	Date
Adams, W. C.	Greenville, S. C.	1
American Industries	Los Angeles, South Gate, Eagle Rock, and Beverly Hills, Calif.	
American Water Softener Co., Inc.	Los Angeles, South Gate, Eagle Rock, and Beverly Hills, Calif.	
Amster, Samuel	Rockaway, N. J.	1
Auth, Anton	Newark, Woodbridge, N. J.	
Baer, Oscar	Minneapolis, Minn.	
Bain, Milton	Teaneck, Englewood, N. J.	
Blumin, Benjamin D.	New York, N. Y.	
Blumin Gas & Electric Appliances	New York, N. Y.	
Blumin, Lillie	New York, N. Y.	
Butler, Raymond C.	Toledo, Ohio.	
Carter, Clyde	Duncan, Okla.	
Collins, James (Jim)	Memphis, Tenn.	
Copeland, Edward	Newark, N. J.	
Druskin, Myron	Minneapolis, Minn.	
Druskin, Oscar	Minneapolis, Minn.	
Edwards, A. G.	Duncan and Marlow, Okla.	
Eisenberg, Max (Mark, Mack, Michael)	Irvington and Newark, N. J.	
Falls, Larry	Portland, Oreg.	
Goeb, Harry	Toledo, Ohio.	
Graham, George	Houston, Tex.	1
Harris, Harry	Rockaway, N. J.	1
Harris Joseph	Rockaway, N. J.	1
Harris, Joseph & Sons, Inc.	Rockaway, N. J.	1
Hoffman, Davis	Los Angeles, Calif.	
Home Improvement Co. of Oklahoma	Duncan and Marlow, Okla.	
Kanter, Rubin	West Los Angeles, Calif.	
Koby, Isadore (Jack)	Fort Wayne, Ind.	
Maith Company	Philadelphia, Pa.	
Maith, Robert A.	Philadelphia, Pa.	
Moriarty, William C. (Bill)	Des Moines and Davenport, Iowa.	
Napols, Joseph	Rock Island, Ill.	
Napolsky, Joseph	Brooklyn and East Rockaway, N. Y.	
National Construction Co.	Brooklyn, East Rockaway, and Jamaica, N. Y.	
Newman, L. M.	Minneapolis, Minn.	
O'Brien, T. T.	Cincinnati, Ohio.	
Patco Equipment Co.	San Antonio, Tex.	1
Patterson, J. W.	San Antonio, Tex.	
Rindley, R. H.	San Antonio, Tex.	
Rocci, Anthony W.	Dallas, Tex.	
Ruppersberg, Don	Brighton, Mass.	
Scanlan, Maurice E.	Los Angeles, Calif.	
Schumann, Paul	Los Angeles, South Gate, Eagle Rock, and Beverly Hills, Calif.	
Sickler, Earl	Canton, Ohio.	
Sloan, Lee	Newark, Belmer, and Bradley Beach, N. J.	
Sparks, L. G.	Omaha, Nebr.	
Sparks L. G. Co.	West Los Angeles, Calif.	
Speck, F. J., & Son	West Los Angeles, Calif.	
Speck, Floyd J.	Utica, N. Y.	
Speck, Forrest E.	Utica, N. Y.	
Tolch, Sam	Utica, N. Y.	
Varno, R.	Los Angeles, Calif.	1
Waltz, Paul (Don)	Burbank, Calif.	
Washburn, Jack	Syracuse, N. Y.	
Zelonka, George	Portland, Oreg.	1
Zukerman, Ben	Newark, N. J.	1
	Portland, Oreg.	1

(The following title I regulations, of 1947, were ordered inserted in the record, see p. 1671:)

FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C., December 19, 1947.

To: All Directors and Chief Underwriters.

Subject: Policy Governing Utilization of Title VI Authorization.

The instructions contained in this letter shall be effective as soon as you have received wire notification from me that the President has signed the bill increasing insurance authorization under Title VI. Please keep the contents of this letter confidential until you receive wire advice from me.

To assure the most advantageous and equitable use of the new Title VI authorization, it has been determined that upon resumption of operations the additional authorization will be controlled by *commitments issued* rather than applications received. Therefore, applications will be received regardless of volume until the total authorization is committed. It has been estimated that field offices probably cannot process and commit more than the presently approved authorization plus the additional \$750,000,000 authorization in the time remaining until March 31, 1948, the legal expiration date.

It is recognized that the volume of applications filed may exceed the new authorization of \$750,000,000. However, the greater the volume of applications that come in, the more selective field offices can be in carrying out the goal of Title VI to provide housing for veterans.

Applications now on hand and hereafter received shall be processed and committed on a basis of selectivity and not necessarily in the order filed. Accordingly, builders should be encouraged to file applications in an orderly manner, rather than in a highly accelerated volume. Such orderly filings will also make it more possible for field offices to maintain a high capacity processing.

All applications filed shall be processed and committed on the basis of the following criteria:

1. A substantial portion of all commitments issued shall be for rental units.
2. Commitments shall not be issued in excess of the capacity of the builder to complete during the life of the commitment.
3. Commitments shall not be issued in excess of the estimated market absorption.
4. Preferential consideration in the order of processing and committing shall be given to applications which offer the best possibilities for the production of housing at the lowest prices or rents.

In addition to the above selective criteria, your attention is called to Section 2 of the new legislation:

"Title VI of the National Housing Act, as amended, shall be employed to assist in maintaining a high volume of new residential construction without supporting unnecessary or artificial costs. In estimating necessary current cost for the purposes of said title, the Federal Housing Commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the actual costs of efficient building operations."

Therefore, you are directed to take such steps as may be appropriate to make certain that necessary current cost estimates do not reflect costs of inefficient building operations.

For your information, the Section 608 Administrative Rules are being revised. The amended rules are now being printed and should be in your hands within the next few days. The revision makes all Section 608 loans *hereafter applied for* subject to certain regulatory requirements that were previously applicable only to loans in excess of \$200,000.

Very truly yours,

FRANKLIN D. RICHARDS, *Commissioner*.

HOUSING AND HOME FINANCE AGENCY,
FEDERAL HOUSING ADMINISTRATION,
December 27, 1947.

To All on the Attachés List:

The President has today signed the bill increasing insurance authorization under title VI by \$250 million with authority in President to further increase authorization by \$500 million. Applications under title VI may be accepted

upon receipt of this telegram and policy governing utilization of title VI authorization contained in my letter of December 19 made public. All applicants filing under Section 608 should be advised of the amended rules.

FRANKLIN D. RICHARDS, *Commissioner*.

FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C., January 6, 1948.

To: Directors of All Field Offices.

Subject: Changes Required in Procedure and Forms in Accordance With the Revisions to the Administrative Rules Effective December 19, 1947.

The Administrative Rules as revised December 19, 1947, will require changes in procedure and certain administrative and legal forms. Such changes are discussed hereinafter and you are cautioned that these changes will be applicable to mortgages on which a commitment to insure is issued on or after December 19, 1947, pursuant to applications for mortgage insurance filed on or after December 19, 1947, and to reopened applications and commitments as hereinafter provided.

As outlined in the telegram dated December 27, 1947, to all field offices, all Section 608 applications received on or after December 19, 1947, shall be numbered from a new block of serial numbers beginning with 42001 and prefixed by the three digits indicating the insuring office.

Any application for mortgage insurance which has been rejected or withdrawn or any commitment which has been terminated or permitted to expire, if reopened after the date of this letter, shall be subject to the provisions outlined in the Administrative Rules as revised December 19, 1947. Such reopened applications and commitments shall be handled in accordance with existing instructions except they shall be assigned a new project number as described in the preceding paragraph. This new number shall also be shown on all forms and papers transferred from the old to the new docket.

The Schedule of Collections shall list the new project number as though it were a new project. If any of the Examination, Application, or Commitment fee was collected and retained under the former project number and, for that reason none or only part of such fees are due and collected under the new project number, cross reference shall be made on the Schedule of Collections in the "remitter" column to the former project number. This will apply also where a fee for reopening or for increase in face amount is being collected and recorded under the new project number.

The following forms shall be amended by the insuring office to the extent outlined below whenever a commitment is issued pursuant to the Administrative Rules revised December 19, 1947.

FHA Form No. 2432-W, Commitment for Insurance, shall be amended by striking out Condition 4 (a) and (b) and inserting in lieu thereof the gummed rider, Mimeo. No. 78914.

FHA Form No. 2453-W, Commitment to Insure Upon Completion, shall be amended by striking out Condition 6 and inserting in lieu thereof the gummed rider, Mimeo. No. 78914.

FHA Form No. 2433-W, Mortgagor's Certificate, shall be amended by deleting Paragraph (1) and inserting in lieu thereof the gummed rider, Mimeo. No. 78913.

FHA Form No. 2455-W, Request for Endorsement of Credit Instrument Certificate of Mortgagee and Mortgagor, shall be amended by deleting therefrom the note following Paragraph 4 (c). This form is further revised by striking out Paragraph 6 (1) and inserting in lieu thereof gummed rider, Mimeo. No. 78913.

FHA Form No. 2450-W, Completion Assurance Agreement, shall be amended by deleting therefrom the note following Paragraph 2 (b).

All forms discussed above shall be used without change where the Application for Mortgage Insurance was filed prior to December 19, 1947 and a Commitment has been or will be issued pursuant to Administrative Rules in effect immediately prior to the revision of December 19, 1947.

As outlined in Section 608 Rental Housing Letter 150, if the mortgage to be insured does not exceed \$200,000, and the mortgagor is an individual, the mortgagor will be regulated by a regulatory agreement entered into between the mortgagor and the Commissioner. A new Regulatory Agree-

ment, FHA Form 2466, is being printed and as soon as it is available from the printer, a bulk shipment of this form will be forwarded to your office.

The Model Form of Certificate of Incorporation, Mimeo. No. 43650, will be used regardless of the amount of the mortgage wherever the mortgagor is a corporation. Therefore, this form has been revised accordingly and also has been revised to provide that dwelling accommodations of the corporation shall not be rented for a period in excess of three years nor shall the property be rented as an entirety without prior written approval of the preferred stock holders. This form has been further amended to provide that the books and accounts of the corporation shall be kept in accordance with the uniform system of accounting prescribed by the Commissioner.

Where the Application for Mortgage Insurance was filed prior to December 19, 1947, the Model Form of Certificate of Incorporation revised September 1947 shall be used without change.

For your information there are enclosed herewith copies of the two gummed riders, Mimeo. Nos. 78913 and 78914, and a revised copy of the Model Form of Certificate of Incorporation, Mimeo. No. 43650. A bulk shipment of these forms is being mailed under separate cover and additional supplies may be ordered in the usual manner.

The above changes in the administrative and legal forms include all the revisions necessary to comply with the Administrative Rules as revised December 19, 1947.

Very truly yours,

CLYDE L. POWELL, *Assistant Commissioner.*

Commissioner's Clearance 1048.

(Substitute paragraph for Par. (1) of FHA Form 2433-W of Par. 6 (1) FHA Form 2455-W)

(1) That the undersigned possesses the powers necessary for and incidental to the ownership, construction and operation of a rental housing project as required by the provisions of Section 608 of the National Housing Act and the Administrative Rules applicable thereto, and as evidence thereof we hand you herewith:

(a) ☐ An original and two conformed copies of our regulatory agreement conforming to the requirements of your Administrative Rules, or

(b) ☐ A certified and two conformed copies of our Corporate Charter, granting such powers and conforming to the requirements of said Rules and Commitment.

(Substitute paragraph for Par. 4 (a) & (b) of FHA Form 2432-W or Par. 6 of FHA Form 2455-W)

The Mortgagor must possess the powers necessary for and incidental to the purpose of providing housing for rent and sale, and there shall be filed with the Commissioner prior to endorsement of the mortgage for insurance a regulatory agreement or a copy of the charter of the Mortgagor corporation or other authority certified to by the granting authorities as the case may require in order to conform with the requirements of Section IV of the aforesaid Administrative Rules and this Administration shall be furnished with certified copies of the by-laws of a corporate Mortgagor, together with minutes of all meetings of incorporators, stockholders, and directors or other proceedings required by the laws of the jurisdiction in which the project is located as necessary to validate the loan. The Mortgagor shall be required to establish and maintain a "Reserve Fund for Replacements" of \$_____ per annum to be accumulated monthly under control of the Mortgagee, commencing on the date of the first payment to principal as established in the insured Mortgage unless a later date is agreed to by the Commissioner and shall file with the Commissioner a rental schedule approved by him, or his duly constituted representative, prior to the opening of the project for rental, which schedule shall not exceed the maximum average rental of \$_____ per room per month for dwelling accommodations based on a count of _____ rooms.

MODEL FORM OF CERTIFICATE OF INCORPORATION¹

Revised January 1948

This is to certify:

First. That we, the subscribers: _____

(name)

whose post office address is _____

(name)

is _____

; and _____

(name)

whose post office address is _____

all being of full legal age, do, under and by virtue of the general laws of the State of Maryland, authorizing the formation of corporations, associate ourselves with the intention of forming a corporation.

Second. That the name of the corporation is _____

Third. The purpose for which the corporation is formed and the business and objects to be carried on and promoted by it are as follows:

(a) to create a private corporation to provide housing for rent or sale, and to acquire any real estate or interest or rights therein or appurtenant thereto and any and all personal property in connection therewith.

(b) to improve and operate, and to sell, convey, assign, mortgage or lease any real estate and any personal property.

(c) to borrow money and issue evidences of indebtedness in furtherance of any or all of the objects of its business; to secure the same by mortgage, deed of trust, pledge or other lien.

(d) to apply for and obtain or cause to be obtained from the Federal Housing Commissioner a contract or contracts of mortgage insurance pursuant to the provisions of the National Housing Act as amended, covering bonds, notes and other evidences of indebtedness issued by this corporation and any indenture of Mortgage or Deed of Trust securing the same. So long as any property of this corporation is encumbered by a mortgage or Deed of Trust insured by the Federal Housing Commissioner it shall engage in no business other than the construction and operation of a Rental Housing Project or Projects.

(e) to enter into, perform and carry out contracts of any kind necessary to, or in connection with, or incidental to the accomplishment of any one or more of the purposes of the corporation.

Fourth. The Post Office address of the place at which the principal office of the corporation in this State will be located is _____

The resident agent of the corporation is _____, whose post office address is _____

Fifth.² The corporation shall have three directors, and _____

, and _____

shall act as such until the first annual meeting or until their successors are duly chosen and qualified.

Sixth. The total amount of the authorized capital stock of the corporation is _____ shares of which 100 shares having a par value of \$1.00 per share shall be designated "Preferred Stock"³ and _____ shares shall be designated "common stock"⁴ which shares of capital stock shall have the preferences and restrictions as follows:

(a) The holders of the preferred stock shall be entitled to receive, when and as declared by the Board of Directors, noncumulative dividends at the rate of five cents (5¢) per share per annum, before any sum or sums shall be set apart for or applied to the purchase or redemption of the preferred stock and before any dividend or other distribution shall be declared, set apart, paid or made in respect of the common stock.

(b) The net earnings of the corporation, after providing therefrom dividends on preferred stock and all reserves hereinafter required, may be applied each year in payment of dividends to stockholders.

¹ Based on Maryland form of Charter. Should be drawn so as to conform to laws of jurisdiction in which filed.

² Any convenient odd number of directors may be provided.

³ This stock must be registered in the name of Federal Housing Administration; it must be par stock; the value and number of shares (not less than 5) may vary from that designated herein but the consideration paid for it will always be \$100. The certificate should contain a statement of the rights, privileges, and restrictions pertaining to this stock. Dividends shall be at the rate of 5% per annum.

⁴ The "common stock" may be par or no par, be divided into one or more classes, provide for such preferences as are deemed appropriate, and may be designated otherwise.

(c) The preferred stock at any time outstanding may be redeemed by the corporation at par and dividends declared thereon, but unpaid to the date of such redemption, provided, however, that such stock shall be so redeemed, upon but in no event before, the termination of any contract of mortgage insurance, covering any indebtedness of the corporation without obligation upon the Commissioner to issue debentures as a result of such termination. Preferred stock so redeemed shall be retired and cancelled.

(d) Anything to the contrary herein notwithstanding, no dividends shall be paid upon any of the capital stock of the corporation (except with the consent of the holders of a majority of the shares of each class of stock then outstanding) until all amortization payments due under the Mortgage insured by the Federal Housing Commissioner have been paid, and until a reserve fund for replacement is first established and maintained by the allocation to such reserve fund in a separate account with the mortgagee (or in the case of a Deed of Trust with the Beneficiary) or in a safe and responsible depository designated by the mortgagee commencing on the date of the first payment toward amortization of the principal of the mortgage insured by the Commissioner unless a later date is approved in writing by the holders of the preferred stock, of an amount equal to \$----- and a like amount monthly thereafter. Such fund whether in the form of a cash deposit or invested in obligations of, or fully guaranteed as to principal and interest by the United States of America shall at all times be under the control of the mortgagee. Disbursements from such fund, whether for the purpose of effecting replacements of structural elements, furnishings and mechanical equipment of the project, or for any other purpose, may be made only after receiving the consent in writing of the holders of the preferred stock.

(e) In the event of any default by the corporation, as hereinafter defined, and during the period of such default, the holders of the preferred stock, voting as a class, shall be entitled to remove all existing directors of the corporation, and to elect new directors in their stead: Provided, however, that one of said directors shall be the owner or holder of one or more shares of common stock. When such default or defaults shall have been cured, the right to elect directors shall again vest in the holders of the common stock.

Seventh. The corporation shall not without prior approval of the holders of a majority of the shares of preferred stock, given either in writing or by vote at a meeting of the preferred stockholders called for that purpose (a) assign, transfer, dispose of, or encumber any real or personal property, including rents, except as specifically permitted by the terms of the mortgage, (b) remodel, reconstruct, demolish, or subtract from the premises constituting the project and subject to such mortgage, (c) permit the occupancy of any of the dwelling accommodations of the corporation except at or below the rents fixed by the schedule of rentals provided hereinafter, (d) consolidate or merge the corporation into or with any other corporation; go into voluntary liquidation; carry into effect any plan of reorganization of the corporation; redeem or cancel any of its shares of preferred stock, or effect any changes whatsoever in its capital stock; alter or amend the certificate of incorporation or fail to establish and maintain reserves as set forth in this certificate of incorporation.

Eighth. (a) The happening of any of the following events shall constitute a default within the meaning of that word as used in this certificate: (1) the failure of the corporation to have dismissed within thirty days after commencement, any receivership, bankruptcy or other form of liquidation instituted by or against the corporation; (2) the failure of the corporation to pay the principal, interest, or any other payment due on any note, bond, or other obligation executed by it, as called for by the terms of such instrument; (3) the failure of the corporation to establish and maintain the reserve fund for replacements provided for in Article Sixth, Section (d) hereof or the use of such fund except as permitted in said section; (4) the failure of the corporation, continuing for a period of fifteen days, to perform any of the covenants, conditions or provisions required by it to be performed by this certificate, the By-laws of the corporation, the Mortgage, or any contract to which the corporation and the Commissioner shall be parties, or fail to carry out in full the terms of any agreement whereby the loan covered by the insured mortgage is to be advanced or the project is to be constructed and operated.

(b) In the event the mortgagor is in default under the terms of this certificate of incorporation or has failed to perform the covenants required by it to be performed under the terms of this certificate or by any Mortgage insured by the Commissioner, the Commissioner may require the corporation to furnish at

the expense of the corporation a complete audit of its books of account duly certified by a certified public accountant.

(c) Upon any default by the corporation, the president or the secretary, or either of them, as may be required by law, shall, at the request in writing of the holders of record of a majority of shares of the preferred stock, addressed to him at the office of the corporation hereinabove designated and stating the purpose of the meeting, forthwith call a special meeting to take place within ten days after such call, of the preferred stockholders for the purpose of the removal of existing directors and the election of new directors. If such officers shall fail to issue a call for such meeting within three days after the receipt of such request, then the holders of a majority of the shares of the preferred stock may do so by giving notice as provided by law, or, if not so provided, then by giving ten days' notice of the time, place and object of the meeting by advertisement inserted in any newspaper published in the county or city in which the principal office of the corporation is situated. When such default shall have been cured, the president or the secretary, or either of them, as may be required by law, shall, at the written request of the holders of a majority of the outstanding shares of the capital stock of the corporation, call in the manner provided by law, a special meeting of the stockholders of the corporation at which the then existing directors may be removed and new directors elected in the usual manner provided in this certificate of incorporation. Such officer shall give notice as provided by law, or, if not so provided, he shall give ten days' notice of the time, place and object of such meeting as above provided.

Ninth. The following provisions are hereby adopted for the conduct of the affairs of the corporation and in regulation of the powers of the corporation, the directors and stockholders:

(a) (1) Dwelling accommodations of the corporation shall be rented at a maximum average rental per room per month fixed by the Board of Directors of the corporation and approved by the holders of the preferred stock. A schedule of rentals for the reasonable rental value of each apartment based upon the average as so determined shall be filed with the holders of the preferred stock, prior to leasing or offering for lease of any of the dwelling accommodations of the project, and when approved by them, shall thereafter be maintained except as provided in Article Seventh hereof. Dwelling accommodations of the corporation shall not be rented for a period in excess of three years nor shall the property be rented as an entirety without prior written approval of the preferred stockholder. Store accommodations shall be rented at a rental to be fixed by the directors with the prior written approval of the holders of the preferred stock.

(2) The corporation shall have the right to charge to and receive from any tenant such amounts as from time to time may be mutually agreed upon between tenant and the corporation with the written approval of the holders of a majority of the shares of preferred stock, for any facilities and/or services which may be furnished by the corporation to such tenant upon his request, over and above the facilities and services to which such tenant may be entitled by virtue of his lease, including among other things, telephone operator and switchboard services, electric current, gas, air cooling and conditioning and other additional or extraordinary facilities or services which may be furnished by the corporation in connection with the operation of such housing facilities.

(b) The corporation shall maintain its accommodations and the grounds and equipment appurtenant thereto in good and substantial repair and condition: Provided, that in the event all or any of the buildings covered by the mortgage shall be destroyed or damaged by fire or other casualty, the money deriving from any insurance on the property shall be applied in accordance with the terms of the insured mortgage on the premises.

(c) The corporation, its property, equipment, buildings, plans, offices, apparatus, devices, books, contracts, records, documents and other papers relating thereto shall be subject to examination and inspection at any reasonable time by the Commissioner or his duly authorized agents; the corporation shall keep full and complete records of all corporate meetings of directors and stockholders and shall also keep copies of all written contracts or other instruments which affect it or any of its property, all or any of which may be subject to inspection and examination by the Commissioner or his duly authorized agents.

(d) The books and accounts of the corporation shall be kept in accordance with the uniform system of accounting prescribed by the holders of the preferred stock.

(e) The corporation shall furnish the Commissioner within 60 days following the end of each fiscal year a complete annual financial report.

(f) At the request of the Commissioner, or of the holder of a majority of shares of the preferred stock, his or their agents, employees or attorneys, the corporation shall give specific answers to questions upon which information is desired from time to time relative to the income, assets, liabilities, contracts, operation and condition of the property and the status of the insured mortgage and any other information with respect to the corporation or its property which may be requested.

Tenth. The duration of the corporation shall be perpetual.

To be appropriately executed, acknowledged and filed with the proper authorities of the State where incorporated.

FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C., December 19, 1947.

To: All Approved Mortgagees.

Subject: Revisions to the Administrative Rules for Rental Housing Insurance under section 608 of the National Housing Act.

Attached hereto is a copy of the revised Administrative Rules for Rental Housing Insurance under Section 608 of the National Housing Act, effective December 19, 1947. These revised rules will affect all commitments issued pursuant to applications for mortgage insurance received subsequent to December 19, 1947.

The principal effect of these revisions is to eliminate that portion of the Administrative Rules which heretofore applied to mortgages not exceeding \$200,000 and to provide for the regulation of rents and methods of operations on all projects in the same manner as heretofore provided where the mortgage exceeded \$200,000.

If the mortgage to be insured exceeds \$200,000 the mortgagor must be a corporation or one of the other types of organization heretofore required in such cases. If the mortgage to be insured does not exceed \$200,000 the mortgagor may also be an individual as previously permitted. Under the revised Administrative Rules, however, the corporate mortgagor, regardless of the amount of the mortgage, will be regulated to the same extent and in the same manner as previously provided in the case of mortgages exceeding \$200,000 and the individual mortgagor will be similarly regulated by regulatory agreement entered into between the mortgagor and the Commissioner.

There have been no changes made in the administrative regulations issued August 15, 1946, which are attached for convenient reference.

Very truly yours,

FRANKLIN D. RICHARDS,
Federal Housing Commissioner.

Attachment.

ADMINISTRATIVE RULES OF THE FEDERAL HOUSING COMMISSIONER UNDER SECTION 608 OF TITLE VI OF THE NATIONAL HOUSING ACT

[Revised December 19, 1947]

SECTION I. APPROVAL OF MORTGAGEES

1. The following may become the mortgagee of a mortgage insured under Section 608 of the National Housing Act:

(a) Any institution or organization which is approved as a mortgagee under Sections 203 (b) or 603 (b) of the National Housing Act; and

(b) Any other chartered institution or permanent organization having succession, upon its approval by the Commissioner for a particular transaction.

2. As a condition precedent to insurance, the mortgagee must agree that it will ascertain the general physical condition of the mortgaged property at intervals not greater than one (1) year, and that, if at any time it be determined by the mortgagee that, in addition to ordinary wear and tear, the mortgaged property is being subjected to permanent or substantial injury, through unreasonable use, abuse or neglect, the mortgagee will, unless adequate provisions satisfactory to a prudent lender is made for the prompt restoration of the mortgaged property, forthwith take such action as may be available to it under the mortgage and appropriate to the particular case, for the protection and preservation of the mort-

gaged property and the income therefrom, and the submission of an application for insurance shall be evidence of such agreement.

3. The Commissioner reserves the right to refuse to approve any institution or organization as the mortgagee of a particular mortgage or to withhold any such approval pending compliance by such institution or organization, with additional conditions which in the discretion of the Commissioner are required in the particular case.

4. Approval of a mortgagee may be withdrawn by notice from the Commissioner upon violation of the agreement mentioned in subsection 2 of this Section, and such approval may also be withdrawn at any time for other cause sufficient to the Commissioner, but no withdrawal will in any way affect the insurance of mortgages theretofore accepted for insurance.

SECTION II. APPLICATION AND COMMITMENT

1. Any approved mortgagee may submit an application for insurance of a mortgage about to be executed, or of a mortgage already executed.

2. The application must be made upon a standard form prescribed by the Commissioner and filed at the local Federal Housing Administration office serving the area in which the property is located.

3. The application must be accompanied by the mortgagee's check to cover, (a) an "Application Fee" computed at the rate of one dollar and fifty cents (\$1.50) per thousand dollars (\$1,000) of the original face amount of the mortgage loan for which application is made, to cover the costs of analysis by the Commissioner, and (b) a sum referred to as "Commitment Fee" which when added to the Application Fee will aggregate three dollars (\$3.00) per thousand of the face amount of the mortgage loan approved for insurance by the Commissioner, and which shall be paid at the time of delivery of the commitment. If the application is refused without an estimate of replacement costs being made by the Commissioner, the fee paid will be returned to the applicant. If, after insurance, the amount of an insured mortgage is increased either by amendment or by the substitution of a new insured mortgage, a further fee shall be paid, based upon the amount of such increase.

4. Upon approval of an application, a commitment will be issued upon a form approved by the Commissioner, setting forth the terms and conditions upon which the mortgage will be insured which commitment may be on a form providing for advances of mortgage money during construction and the insurance of such advances or it may be on a form providing for insurance of the mortgage after completion of the improvements depending upon the request of the mortgagee indicated upon the application for mortgage insurance.

5. The inspection fee computed at the rate of five dollars (\$5.00) per thousand dollars of the face amount of the commitment shall be paid as provided for in the commitment.

SECTION III. ELIGIBLE MORTGAGES

To be eligible for insurance—

1. The mortgage must be executed upon a form approved by the Commissioner for use in the jurisdiction in which the property covered by the mortgage is situated by a mortgagor with the qualifications hereinafter set forth in Section IV, must be a first lien upon property that conforms with the property standards prescribed by the Commissioner, and the mortgagee must be obligated, as a part of the mortgage transaction, to disburse the entire principal amount of the mortgage to, or for the account of, the mortgagor.

2. The mortgage must secure a principal obligation in multiples of one hundred dollars (\$100) but not exceeding five million dollars (\$5,000,000) and not in excess of ninety per centum (90%) of the amount which the Commissioner estimates will be the necessary current cost of the completed property or project, including the land; the proposed physical improvements; utilities within the boundaries of the property or project; architects' fees; taxes and interest accruing during construction; and other miscellaneous charges incidental to construction and approved by the Commissioner: *Provided*, That such mortgage shall not in any event exceed the amount which the Commissioner estimates will be the cost of the completed physical improvements on the property or project, exclusive of offsite public utilities and streets, and organization and legal expenses. Such part of the mortgage as may be attributable to dwelling use shall not exceed \$1,500 per room: *Provided*, That the Commissioner may increase this amount to \$1,800 where in his discretion cost levels so require.

The mortgage must have a maturity satisfactory to the Commissioner and become due upon the first day of a month.

The mortgage may bear interest at such rate as may be agreed upon between mortgagee and the mortgagor, but in no case shall such interest rate be in excess of four per centum (4%) per annum. Interest shall be payable only on principal outstanding and shall be payable in monthly instalments.

The mortgage must contain complete amortization provisions satisfactory to the Commissioner requiring monthly payments on a level annuity or declining annuity basis as agreed upon by the mortgagor and mortgagee. Where the principal of the mortgage does not exceed \$200,000, payments on account of principal shall begin not later than the first day of the twelfth month following execution of the mortgage. Where the mortgage does exceed \$200,000, such principal payments shall begin not later than the first day of the eighteenth month following the execution of the mortgage, or at such earlier date, as may be determined by the Commissioner at time of commitment. In cases where a commitment has been issued to insure upon completion amortization shall commence on the first day of a month not later than thirty (30) days after the expiration date of the commitment.

The mortgage may provide for monthly payments by the mortgagor to the mortgagee of an amount equal to one-twelfth ($\frac{1}{12}$) of the annual mortgage insurance premium payable by the mortgagee to the Commissioner. Such payments shall continue only so long as the contract of insurance shall remain in effect. The mortgage shall provide that upon the payment of the mortgage at maturity, the mortgagor shall pay the adjusted premium charge referred to in Section 2, Article III, of the Regulations.

The mortgage shall contain a covenant binding the mortgagor to keep the property insured by a standard policy or policies against fire and such other risks as the Commissioner, upon the insurance of the mortgage, may stipulate, in an amount which will comply with the coinsurance clause applicable to the location and character of the property, but not less than eighty percent (80%) of the actual cash value of the insurable improvements and equipment of the property. The initial coverage shall be in an amount estimated by the Commissioner at the time of completion of the entire project or units thereof. The policies evidencing such insurance shall have attached thereto a standard mortgage clause making loss payable to the mortgagee and the Commissioner, as interests may appear.

The mortgage shall provide for such equal monthly payments by the mortgagor to the mortgagee as will amortize the ground rents, if any, and the assessed amount of all taxes, water rates and special assessments, if any, and fire and other hazard insurance premiums, within a period ending one month prior to the dates on which the same become delinquent. The mortgage shall further provide that such payments shall be held in trust for the benefit and payment of the mortgagor by the mortgagee, for the purpose of paying such ground rents, taxes, water rates and assessments, and insurance premiums, before the same become delinquent. The mortgage must also make provision for adjustments in case the estimated amount of such taxes, water rates and assessments, and insurance premiums shall prove to be more, or less, than the actual amount of so paid by the mortgagor.

All monthly payments to be made by the mortgagor to the mortgagee as hereinabove provided in subsections 4 to 8 inclusive, shall be added together and the aggregate amount thereof shall be paid by the mortgagor each month in a single payment. The mortgagee shall apply the same to the following items in the order set forth:

- (a) premium charges under the contract of insurance;
- (b) ground rents, taxes, water rates, special assessments, and fire and other hazard insurance premiums;
- (c) interest on the mortgage; and
- (d) amortization of the principal of the mortgage.

A deficiency in the amount of any such aggregate monthly payments shall, if not made good by the mortgagor prior to or on the due date of the next such payment, constitute an event of default under the mortgage.

The mortgage must contain a provision or provisions, satisfactory to the Commissioner, giving to the mortgagee, in the event of default or foreclosure of the mortgage, such rights and remedies for the protection and preservation of the property covered by the mortgage and the income therefrom, as are available under the law or custom of the jurisdiction.

11. The mortgagee may charge the mortgagor the amount of the application fees provided in subsection 3 of Section II of these Rules and an initial service charge to reimburse itself for the cost of closing the transaction. Such initial service charge may be in an amount not in excess of one and one-half per centum (1½%) of the original principal amount of the mortgage.

12. In addition to the charges hereinbefore mentioned, the mortgagee may collect from the mortgagor only recording fees, mortgage, and stamp taxes, if any, and such costs of survey and title search as are approved by the Commissioner.

13. The mortgage may contain such other terms, conditions, and provisions with respect to advances during construction, assurance of completion, release of parts of the mortgaged property from the lien of the mortgage, insurance, repairs, alterations, payment of taxes, default and management reserves, foreclosure proceedings, anticipation of maturity, and other matters as the Commissioner may in his discretion prescribe or approve. The mortgagee may include in the mortgage a provision for such additional charge in the event of prepayment of principal as may be agreed upon between the mortgagor and mortgagee, provided, however, that the mortgagor must be permitted to prepay up to fifteen per centum (15%) of the original principal amount of the mortgage in any one calendar year without any such additional charge.

14. The mortgage must be executed with respect to a project which, in the opinion of the Commissioner, is an acceptable risk in view of the shortage of housing.

SECTION IV. ELIGIBLE MORTGAGORS

1. A mortgagor must establish that after final disbursement of the loan, the property covered by the mortgage is free and clear of all liens other than such mortgage, and that there will not be outstanding any other unpaid obligation contracted in connection with the mortgage transaction or the purchase of the mortgaged property, except obligations which are secured by property or collateral owned by the mortgagor independently of the mortgaged property.

2. The mortgagor must establish, in a manner satisfactory to the Commissioner, that after completion of the project, preference or priority of opportunity to occupy will be given to veterans of World War II and their immediate families, except that this requirement does not apply to hardship cases as defined by the Commissioner and approved by him.

3. A mortgagor must have a general credit standing satisfactory to the Commissioner.

4. In addition to meeting the requirements set forth above in this section, the mortgagor must be—

(a) a corporation or trust formed or created, with the approval of the Commissioner, for the purpose of providing housing for rent or sale, and possessing powers necessary therefor and incidental thereto, which corporation, or trust, until the termination of all obligations of the Commissioner under such insurance, is regulated or restricted by the Commissioner as to rents or sales, charges, capital structures, and methods of operation to such an extent as may be deemed advisable by the Commissioner. Such regulation or restriction shall remain in effect until such time as the mortgage insurance contract terminates without obligation upon the Commissioner to issue debentures as a result of such termination. So long as such contract of insurance is in effect, the corporation or trust shall engage in no business other than the construction and operation of a Rental Housing project or projects; or

(b) a Federal or State instrumentality, a municipal corporate instrumentality of one or more States, or a limited dividend corporation formed under and restricted by Federal or State housing laws as to rents, charges, and methods of operation.

(c) if the mortgage is not in excess of \$200,000, the mortgagor may be an individual.

SECTION V. SUPERVISION OF MORTGAGORS

1. The mortgagor shall deposit with the mortgagee an amount equivalent to not less than one and one-half percent (1½%) of the original principal amount of the mortgage, in trust for the purpose of meeting the cost of equipping and renting the project subsequent to completion of construction of the entire project or units thereof, and to pay taxes and insurance premiums for the twelve (12) months' period following the completion of construction. Any balance

of said fund not used or set aside for the above purposes shall be paid to the mortgagor upon completion of the entire project to the satisfaction of the Commissioner. In cases where a commitment to insure upon completion is issued, this requirement may be waived at the discretion of the mortgagee.

2. The mortgagor must establish in a manner satisfactory to the Commissioner that, in addition to the proceeds of the insured mortgage, the mortgagor has funds sufficient to assure completion of construction of the project. The Commissioner may require such funds, if any, to be deposited with and held by the mortgagee in a special account or with an acceptable trustee or escrow agent under an appropriate agreement approved by the Commissioner which will require such funds to be expended for work and material on the physical improvements prior to the advance of any mortgage money.

3. The Commissioner may require the deposit with the mortgagee or with an acceptable trustee or escrow agent under an appropriate agreement of such cash as may be required for the completion of offsite public utilities and streets.

4. A corporate mortgagor shall be regulated through the ownership by the Commissioner of certain shares of special stock (or other evidence of beneficial interest in the mortgagor) which stock or interest will acquire majority voting rights in the event of default under the mortgage or violation of provisions of the charter of the mortgagor or the violation of any valid agreement entered into between the mortgagor, the mortgagee and/or the Commissioner, but only for a period coextensive with the duration of such default or violation. The shares of stock or of beneficial interest issued to the Commissioner, his nominee or nominees and/or the Federal Housing Administration shall be in sufficient amount to constitute under the laws of the particular State a valid special class of stock or interest and shall be issued in consideration of the payment by the Commissioner of not exceeding in the aggregate \$100. Such stock shall be represented by certificates issued in the name of the Commissioner, and/or in the name of his nominee or nominees, and/or in the name of the Federal Housing Administration, as the Commissioner shall require. Upon the termination of all obligations of the Commissioner under his contract of mortgage insurance or any succeeding contract or agreement covering the mortgage obligation, including the obligation upon the Commissioner to issue debentures as a result of such termination, all regulation and restriction of the mortgagor shall cease. When the right of the Commissioner to regulate or restrict the mortgagor shall so terminate, the shares of special stock or other evidence of beneficial interest shall be surrendered by the Commissioner upon reimbursement of his payments therefor, plus accrued dividends, if any, thereon. Such regulation and the additional regulation or restriction hereinafter provided in this Section shall be made effective by incorporation of appropriate provisions therefor in the charter or other instrument under which the mortgagor is created, or by agreement. In all cases where the insured mortgage is in excess of \$200,000, the mortgagor must be a corporation or a trust.

In the case of an individual mortgagor, regulation by the Commissioner may be exercised through a regulatory agreement in form and content satisfactory to the Commissioner.

The following are the items which will be regulated or restricted in the manner and to the extent hereinbefore indicated:

(a) No charge shall be made by the mortgagor for the accommodations offered by the project in excess of a rental schedule to be filed with the Commissioner and approved by him or his duly constituted representative prior to the opening of the project for rental, which schedule shall be based upon a maximum average rental fixed prior to the insurance of the mortgage, and shall not thereafter be changed except upon application of the mortgagor to, and the written approval of the change by, the Commissioner.

(b) The established maximum rental shall be the maximum authorized charge against any tenant for the accommodations offered and shall include all services except telephone, gas, electric, and refrigeration facilities. Charges permitted in addition to such maximum rental shall be subject to the approval of the Commissioner.

(c) The regulation and restriction provided for in the above paragraphs (a) and (b) of this subsection shall not apply so long as the maximum rents are regulated by another agency of the United States Government. Such maximum rental as established by such agency of the United States will be accepted by the Commissioner as an approved rent schedule. Upon the expiration of the authority of any such agency to fix maximum rentals, the established maximum rental schedule then in force with respect to

the project shall be the established maximum rental schedule within the provisions of (a) and (b) above, and shall not thereafter be changed except upon approval of the Commissioner.

(d) A reserve for replacements shall be accumulated and maintained with the mortgagee so long as the mortgage insurance is in force, and the amount and types of such reserves and conditions under which they shall be accumulated, replenished and used, shall be specified in the regulatory agreement or charter. Failure to comply with the terms of this requirement may be considered by the Commissioner as a default under the terms of the regulatory agreement or charter.

(e) The mortgagor shall keep full and complete records of all corporate meetings of directors, stockholders and finance committee, if any, and of the elections and resignations of its officers; and whether an individual or a corporate mortgagor shall keep complete, orderly and accurate books of account and shall also keep copies of all written contracts or other instruments which affect it or any of its property which shall be subject to inspection and examination by the Commissioner or his duly authorized agents at all reasonable times.

(f) The mortgagor shall furnish at the request of the Commissioner, his employees or attorneys, specific answers to questions upon which information is desired from time to time relative to the income, assets, liabilities, contracts, operation, condition of the property and the status of the insured mortgage and any other information with respect to the mortgagor or its property which may reasonably be required. The above enumeration of specific items shall not be deemed in any manner to limit the generality of the preceding sentence. In cases the mortgagor is in default under the insured mortgage, its regulatory agreement or charter, or has failed to meet any of the applicable requirements of this section or is in default with respect to any agreement between the mortgagor and the mortgagee or under any contract for the improvement of the mortgaged premises or under any agreement to which the Federal Housing Commissioner is a party, or in case an inspection shows that the property is not being managed or maintained in a manner satisfactory to the Commissioner, the Commissioner may require the mortgagor to furnish at the expense of the latter a complete audit of its books of account duly certified by a public accountant satisfactory to the Commissioner.

5. Assurance for the completion of a project may be either (1) the personal undertaking or obligation in a form and by an obligor or obligors designated by the mortgagee and satisfactory to the Commissioner, in an amount at least equal to ten per centum (10%) of the construction cost, or (2) an escrow deposit in an approved depository of cash or securities of, or fully guaranteed as to principal and interest by, the United States of America, in an amount at least equal to ten per centum (10%) of the construction cost, conditioned on completion of the project to the satisfaction of the Commissioner.

6. In the event the mortgagor is a Federal or State instrumentality, a municipal corporate instrumentality of one or more states, or a limited dividend corporation formed under and restricted by Federal or State housing laws as to rents, charges and methods of operation, as described in subsection 4 (b) of Section IV of these Rules, the Commissioner may, in his discretion, waive the requirements set forth in this Section, in whole or in part.

SECTION VI. ELIGIBLE PROPERTIES

1. A mortgage to be eligible for insurance must be on real estate held in fee simple, or on the interest of the lessee under a lease for not less than ninety-nine (99) years which is renewable, or under a lease having a period of not less than fifty (50) years to run from the date the mortgage is executed.

2. At the time the mortgage is insured the mortgagor shall have constructed and completed or shall be obligated to construct and complete new housing accommodations on the mortgaged property designed principally for residential use, conforming to standards satisfactory to the Commissioner, and consisting of not less than eight (8) rentable dwelling units on one site and may be detached, semidetached, or row houses, or multifamily structures.

3. Such dwellings and other improvements, if any, must not violate any zoning or deed restrictions applicable to the project site and must comply with all applicable building and other governmental regulations.

SECTION VII. TITLE

1. In order to be eligible for insurance, the Commissioner must determine what marketable title to the mortgage property is vested in the mortgagor as of the date the mortgage is filed for record. The Commissioner will examine the title to property covered by a mortgage offered for insurance and in the event determination of eligibility with respect to title is made as herein provided, such finding shall constitute a part of the contract of insurance evidence by the insurance endorsement.

2. Upon endorsement of the mortgage for insurance, the mortgagee, without expense to the Commissioner, shall furnish to the Commissioner a survey satisfactory to him and a policy of title insurance as provided in paragraph (a) of this subsection, provided, however, that in the event the mortgagee is unable to furnish such policy for reasons satisfactory to the Commissioner, the mortgagee, without expense to the Commissioner, shall furnish evidence of title as provided in paragraphs (b), (c), or (d) of this subsection as the Commissioner may require.

(a) A policy of title insurance with respect to such mortgage issued by a company satisfactory to the Commissioner. Such policy shall comply with the "L. I. C. Standard Mortgagee Form," or the "A. T. A. Standard Mortgagee Form," or such other form as may be approved by the Commissioner and which offers substantially the same coverage under substantially the same conditions and stipulations. Such policies may contain such "permitted" and other exceptions, restrictions, and limitations as are approved by the Commissioner. The policy shall become effective as of the date the mortgage is filed for record and shall run to the mortgagee and the Commissioner, their successors and assigns, as their respective interests may appear.

(b) An abstract of title satisfactory to the Commissioner, prepared by an abstract company or individual engaged in the business of preparing abstracts of title, accompanied by a legal opinion satisfactory to the Commissioner, as to the quality of such title, signed by an attorney at law experienced in the examination of titles.

(c) A Torrens or similar title certificate.

(d) Evidence of title conforming to the standards of a supervising branch of the Government of the United States of America, or of any State or territory thereof.

SECTION VIII. INSURANCE OF ADVANCES DURING CONSTRUCTION

1. The Commissioner, the mortgagor, and the mortgagee shall, prior to the insurance of the mortgage, agree with respect to the manner and conditions under which advances (if any) during construction are to be made by the mortgagee and approved for insurance by the Commissioner.

2. Such agreement shall require the mortgagee to notify the Commissioner, through the insuring office having jurisdiction over the territory in which the property is situated, in writing, on an application form prescribed by the Commissioner, setting forth the proposed date and the amount of the advance to be made, and the Commissioner shall deliver to the mortgagee within a reasonable time from the date of such notice a certificate executed on behalf of the Commissioner on a form prescribed by him setting forth the amount approved for insurance or advising the mortgagee of the Commissioner's nonapproval and setting forth the reasons therefor.

3. Such agreement shall be set forth on a form prescribed by the Commissioner, shall contain such additional terms, conditions and provisions as the Commissioner shall in the particular case prescribe or approve, and when properly executed by the Commissioner and the mortgagee, shall constitute a part of the mortgage insurance contract.

4. No advance under any mortgage shall be eligible for insurance unless there is filed with the application for such advance a certificate or certificates in the form required by the Commissioner, certifying that the laborers and mechanics employed in the construction of the dwelling or dwellings or housing project involved have been paid not less than the wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor prior to the beginning of construction and after the date of the filing of the application for insurance.

5. In the event a commitment to insure upon completion is issued and accepted he provisions of subsections 2 and 3 do not apply.

SECTION IX. EFFECTIVE DATE

These Administrative Rules are effective as to all mortgages on which a commitment to insure under Section 608 is issued on or after December 19, 1947, pursuant to applications for mortgage insurance filed on or after said date.

Issued at Washington, D. C., December 19, 1947.

FRANKLIN D. RICHARDS,
Federal Housing Commissioner.

ADMINISTRATIVE REGULATIONS OF THE FEDERAL HOUSING COMMISSIONER UNDER
SECTION 608 OF TITLE VI OF THE NATIONAL HOUSING ACT

APPLICABLE TO ALL MORTGAGES INSURED UNDER SECTION 608

ARTICLE I

These Regulations may be cited and referred to as "Regulations of the Federal Housing Commissioner under Section 608 of the National Housing Act, issued August 15, 1946."

ARTICLE II. DEFINITIONS

As used in these Regulations—

1. The term "Commissioner" means the Federal Housing Commissioner.
2. The term "Act" means the National Housing Act, as amended.
3. The term "Mortgage" means such a first lien upon real estate and other property as is commonly given to secure advances (including but not being limited to advances during construction) on, or the unpaid purchase price of, real estate under the laws of the State, district or Territory in which the real estate is located, together with the credit instrument or instruments, if any, secured thereby.
4. The term "insured mortgage" means a mortgage which has been insured by the endorsement of the Commission, or his duly authorized representative.
5. The term "mortgagor" means the original borrower under a mortgage and its successors and such of its assigns as are approved by the Commissioner.
6. The term "mortgagee" means the original lender under a mortgage, its successors and such of its assigns as are approved by the Commissioner, and includes the holders of the credit instruments issued under a trust mortgage or deed of trust pursuant to which such holders act by and through a trustee therein named.

ARTICLE III. PREMIUMS

1. The mortgagee, upon the initial endorsement of the mortgage for insurance, shall pay to the Commissioner a first mortgage insurance premium equal to one-half of one per centum ($\frac{1}{2}$ of 1%) of the original face amount of the mortgage.

(a) If the date of the first principal payment is more than one year following the date of such initial insurance endorsement the mortgagee, upon the anniversary of such insurance date, shall pay a second premium equal to one-half of one per centum ($\frac{1}{2}$ of 1%) of the original face amount of the mortgage.

On the date of the first principal payment the mortgagee shall pay a third premium equal to one-half of one per centum ($\frac{1}{2}$ of 1%) of the average outstanding principal obligation of the mortgage for the following year which shall be adjusted so as to accord with such date and so that the aggregate of the said three premiums shall equal the sum of (i) one per centum (1%) of the average outstanding principal obligation of the mortgage for the year following the date of initial insurance endorsement and (ii) one-half of one per centum ($\frac{1}{2}$ of 1%) per annum of the average outstanding principal obligation of the mortgage for the period from the first anniversary of the date of initial insurance endorsement to one year following the date of the first principal payment.

(b) If the date of the first principal payment is one year or less than one year following the date of such initial insurance endorsement the mortgagee, upon such first principal payment date, shall pay a second premium equal to one-half of one per centum ($\frac{1}{2}$ of 1%) of the average outstanding principal obligation of the mortgage for the following year which shall be adjusted with such date and so that the aggregate of the said three premiums shall equal the sum of (i) one per centum (1%) per

annum of the average outstanding principal obligation of the mortgage for the period from the date of initial insurance endorsement to the date of first principal payment and (ii) one-half of one per centum ($\frac{1}{2}$ of 1%) of the average outstanding principal obligation of the mortgage for the year following the date of the first principal payment.

(c) Where the credit instrument is initially and finally endorsed for insurance pursuant to a Commitment to Insure Upon Completion, the mortgagee on the date of the first principal payment shall pay a second premium equal to one-half of one per centum ($\frac{1}{2}$ of 1%) of the average outstanding principal obligation of the mortgage for the year following such first principal payment date which shall be adjusted so as to accord with such date and so that the aggregate of the said two premiums shall equal the sum of one-half of one per centum ($\frac{1}{2}$ of 1%) per annum of the average outstanding principal obligation of the mortgage for the period from the date of the insurance endorsement to one year following the date of the first principal payment.

Until the mortgage is paid in full or until claim under the contract of insurance is made or until the contract of insurance shall terminate the mortgagee, on each anniversary of the date of the first principal payment, shall pay an annual mortgage insurance premium equal to one-half of one per centum ($\frac{1}{2}$ of 1%) of the average outstanding principal obligation of the mortgage for the year following the date on which such premium becomes payable.

The premiums payable on and after the date of the first principal payment shall be calculated in accordance with the amortization provisions without taking into account delinquent payments or prepayments.

Premiums shall be payable in cash or in debentures issued by the Commissioner under Title VI of the Act at par plus accrued interest. All premiums are payable in advance and no refund can be made of any portion thereof except as hereinafter provided in subsection 3 hereof.

2. In the event that the principal obligation of any mortgage accepted for insurance is paid in full prior to maturity, the mortgagee shall within thirty (30) days thereafter notify the Commissioner of the date of prepayment and shall collect from the mortgagor and pay to the Commissioner an adjusted premium charge of one per centum (1%) of the original face amount of the prepaid mortgage, except that if at the time of any such prepayment there is placed on the mortgaged property a new insured mortgage in an amount less than the original face amount of the prepaid mortgage, an adjusted premium shall be paid based upon the difference between such amounts at the rate applicable as above stated, depending upon the date of prepayment.

In no event shall the adjusted premium exceed the aggregate amount of premium charges which would have been payable if the mortgage had continued to be insured until maturity.

No adjusted premium shall be collected by the mortgagee in the following cases:

(a) where at the time of such prepayment there is placed on the mortgaged property a new insured mortgage for an amount equal to or greater than the original face amount of the prepaid mortgage; or

(b) where the final maturity specified in the mortgage is accelerated solely by reason of partial prepayments made by the mortgagor which do not exceed in any one calendar year fifteen per centum (15%) of the original face amount of the mortgage; or

(c) where the final maturity specified in the mortgage is accelerated solely by reason of payments to principal to compensate for (1) damage to the mortgaged property, or (2) a release of a part of such property if approved by the Commissioner; or

(d) where payment in full is made of a delinquent mortgage on which foreclosure proceedings have been commenced, or for the purpose of avoiding foreclosure, if the transaction is approved by the Commissioner; or

(e) where, at the time of prepayment, there is placed on the property a new insured mortgage less than the original principal amount of the prepaid mortgage, provided that the Commissioner finds that the collection of such charge would be inequitable under the particular circumstances of the transaction.

Upon such prepayment the contract of insurance shall terminate.

If at the time of prepayment a new insured mortgage is placed on the same property, the Commissioner will refund to the mortgagee for the account of the mortgagor an amount equal to the pro rata portion of the current annual mortgage insurance premium theretofore paid, which is applicable to the portion of the year subsequent to such prepayment.

ARTICLE IV. INSURANCE ENDORSEMENT

1. Upon compliance satisfactory to the Commissioner with the terms and conditions of his commitment to insure, the Commissioner shall endorse the original credit instrument in form as follows:

No. -----
 Insured under Section 608
 Of the National Housing Act
 and Regulations Thereunder of the
 Federal Housing Commissioner
 In Effect on -----
 To the Extent of Advances
 Approved by the Commissioner
 FEDERAL HOUSING COMMISSIONER
 By -----
 Authorized agent
 Date -----

2. The mortgage shall be an insured mortgage from the date of such endorsement. The Commissioner and mortgagee shall thereafter be bound by these Regulations with the same force and to the same extent as if a separate contract had been executed relating to the insured mortgage, including the provisions of these Regulations and of the National Housing Act. The term "contract of insurance" as used herein means the agreement evidenced by such endorsement.

3. After all advances under the mortgage have been made with the approval of the Commissioner, the Commissioner, upon proof of compliance with any and all conditions upon which prior advances were approved for insurance, and upon presentation of the original credit instrument, will make a notation below the insurance endorsement in form as follows:

A total sum of \$ -----
 Has Been Approved for Insurance Hereunder
 By the Commissioner
 FEDERAL HOUSING COMMISSIONER
 By -----
 Authorized agent
 Date -----

4. In cases where a commitment has been issued to insure upon completion the Commissioner will, upon full compliance with the terms of such commitment endorse the original credit instrument for insurance by executing both certificates of the endorsement form as set forth in Sections 1 and 3 of this Article.

ARTICLE V. RIGHTS AND DUTIES OF A MORTGAGEE UNDER THE CONTRACT OF INSURANCE

1. The mortgagee shall be entitled to receive the benefits of the insurance, at its option, either as provided in subsection (a) or subsection (b) hereunder,

(a) If the mortgagor fails to make any payment due under or provided to be paid by the terms of the mortgage, whether or not such failure to pay is caused by failure to perform some other covenant or obligation under the mortgage because of which the mortgagee has declared the full amount due and payable under an acceleration clause contained therein, and such failure continues for a period of thirty (30) days, the mortgage shall be considered in default and the mortgagee shall within thirty (30) days thereafter give notice in writing to the Commissioner of such default. At any time within thirty (30) days after the date of such notice, or within such further period as may be agreed upon by the Commissioner in writing, the mortgagee shall, in such manner as the Commissioner may require, assign, transfer, and deliver to the Commissioner the original credit instrument and the mortgage securing the same, without recourse or warranty, except that the mortgagee must warrant that no act or omission of the mortgagee has impaired the validity and priority of the mortgage, that the mortgage is prior to all mechanic's and materialmen's liens filed of record subsequent to the recording of such mortgage regardless of whether such liens attached

prior to such recording date, and prior to all liens and encumbrances which may have attached or defects which may have arisen subsequent to the recording of such mortgage except such liens or other matters as may be approved by the Commissioner, that the amount stated in the instrument of assignment is actually due and owing under the mortgage, that there are no offsets or counterclaims thereto, and that the mortgagee has a good right to assign the mortgage and other items enumerated below:

- (1) all rights and interest arising under the mortgage so in default;
- (2) all claims of the mortgagee against the mortgagor or others, arising out of the mortgage transaction;
- (3) all policies of title or other insurance or surety bonds or other guaranties, and any and all claims thereunder;
- (4) any balance of the mortgage loan not advanced to the mortgagor;
- (5) any cash or property held by the mortgagee or its agents or to which it is entitled, including deposits made for the account of the mortgagor and which have not been applied in reduction of the principal of the mortgage indebtedness; and
- (6) all records, documents, books, papers, and accounts relating to the mortgage transaction.

Nothing contained in this subsection shall be so construed as to prevent the mortgagee from taking action at a later date than herein specified, provided the Commissioner agrees thereto in writing.

The mortgagee, prior to the assignment of the mortgage to the Commissioner, shall offer evidence satisfactory to him that the original title coverage has been extended to include all advances of mortgage money made up to the date of assignment showing title satisfactory to the Commissioner as defined in Section 4 of this Article.

(b) If the mortgagor fails to make any payment to the mortgagee required by the mortgage, or to perform any other covenant or obligation under the mortgage, and such failure continues for the period of grace, if any, set forth in the mortgage, the mortgage shall be considered in default, and the mortgagee, within a period of thirty (30) days after the occurrence of a default arising on account of such failure to make any such payment or within such period after the mortgagee shall have knowledge of the occurrence of a default arising on account of such failure to perform any other covenant or obligation under the mortgage, shall give notice in writing to the Commissioner of such default. At any time within a period of ninety (90) days after the date of such notice or within such later time as may be agreed upon by the Commissioner in writing, the mortgagee, at its election, shall either—

(1) with, and subject to, the consent of the Commissioner, acquire by means other than foreclosure of the mortgage, possession of, and title to, the mortgaged property; or

(2) institute proceedings for the foreclosure of the mortgage and obtain possession of the mortgaged property and the income therefrom through the voluntary surrender thereof by the mortgagor or institute, and prosecute with reasonable diligence, proceedings for the appointment of a receiver of the mortgaged property and the income therefrom or proceed to exercise such other rights and remedies as may be available to it for the protection and preservation of the mortgaged property and the income therefrom under the mortgage and the law of the particular jurisdiction: Provided, That if the laws of the State in which the mortgaged property is situated do not permit the institution of such proceedings within such period of time, the mortgagee shall institute such proceedings within sixty (60) days after the expiration of the time during which the institution of such proceedings is prohibited by such laws. Nothing contained in this subsection shall be so construed as to require the mortgagee to take any action when the necessity therefor has been waived in writing by the Commissioner nor to prevent the mortgagee from taking action at a later date than herein specified provided the Commissioner so agrees in writing. The mortgagee shall promptly give notice in writing to the Commissioner of the institution of foreclosure proceedings under this subsection and shall exercise reasonable diligence in prosecuting such proceedings to completion. If after default and prior to the completion of foreclosure proceedings the mortgagor shall pay to the mortgagee all payments in default and such expenses as the mortgagee shall have incurred in connection with the

2. If the mortgagee elects to proceed under, and does proceed under and in accordance with, the provisions of subsection (a) of Section 1 of this Article, and furnishes evidence satisfactory to the Commissioner that there are no past due and unpaid ground rents, general taxes, or special assessments, and furnishes the warranties described in said subsection, the Commissioner shall deliver to the mortgagee—

(b) A Certificate of Claim in accordance with Section 608 (d) of the Act which shall become payable, if at all, upon the sale and final liquidation of the interest of the Commissioner in such property. This Certificate shall be for an amount which the Commissioner shall determine to be sufficient to pay all amounts due under the mortgage and not covered by the amount of debentures. Each such Certificate of Claim shall provide that there shall accrue to the holder thereof with respect to the face amount of such Certificate an increment at the rate of three per centum (3%) per annum.

4. Title satisfactory to the Commissioner within the meaning of Section 3 of this Article will be such title as was vested in the mortgagor as of the date the mortgage was made and for record, but must be free and clear of all mechanics' and materialmen's liens, and all other liens, whether recorded or not, on such mortgage, and all such liens attached prior to such recording date, and free

of all liens and encumbrances which may have attached, or defects or have arisen subsequent to the recording of such mortgage, except for other matters as may be approved by the Commissioner.

The mortgagee, at the time a deed is tendered in accordance with Section 3 of this Article, shall furnish to the Commissioner without expense to him satisfactory evidence of such title. Such title evidence shall be executed as of a date not later than the recording of the deed to the Commissioner and shall be in the form of a policy of title insurance, or a satisfactory abstract and opinion covering the period subsequent to the recording of the mortgage, or a satisfactory continuation of the title evidence accepted by the Commissioner at the time the mortgage was insured, depending upon the form of title evidence originally accepted by the Commissioner.

The mortgaged premises shall at all times be insured against fire and other hazards as provided in the mortgage. The duty shall be upon the mortgagee to obtain such coverage in the event the mortgagor fails to do so. If the mortgagee fails to pay any premiums necessary to keep the mortgaged premises so insured, the contract of insurance may be terminated at the election of the Commissioner. If at the time claim is filed for debentures the property has been damaged by fire or other hazards and loss has been sustained by reason of the failure to keep the property insured as provided in the mortgage, the amount of such loss may be deducted from the amount of the debentures. In the event of such loss occurring to the mortgaged property under any policy of fire or other insurance and the amount of any funds received by the mortgagee in satisfaction of such loss shall be sufficient to pay in full the entire mortgage indebtedness, the mortgage shall, upon receipt of such funds by the mortgagee, be terminated and the contract of mortgage insurance made with the Commissioner thereupon terminate. If, however, any funds so received shall be insufficient to pay such mortgage indebtedness in full, the mortgagee shall not be liable for the option under the mortgage to use the proceeds of such insurance for repairing, replacing or rebuilding of such premises or to apply such proceeds to pay such mortgage indebtedness without prior written approval of the Commissioner.

If the Commissioner shall fail to give his approval to the use or application of such funds for either of said purposes within thirty (30) days after request by the mortgagee, the mortgagee may use or apply such funds for any of the purposes specified in the mortgage without the approval of the Commissioner.

When the mortgage becomes in default, as provided in Section 1 of this Article, the mortgagee does not make the assignment provided in Section 1 (a) of this Article, or does not foreclose or otherwise acquire the mortgaged property, or does not make the conveyance provided in Section 3 of this Article, and written notice is given to the Commissioner; or in the event that the mortgagor's obligation under the mortgage in full prior to the maturity thereof is not paid by the mortgagee, the mortgagee pays the adjusted premium charge required under the provisions of Section 2 of Article III of these Regulations and written notice is given to the Commissioner, the obligation to pay the annual premium shall cease, and all rights of the mortgagee and the mortgagor under the provisions of Article 3 of this Article shall terminate as of the date of such notice.

In the event that the mortgagee fails to comply with the provisions of Article 2 (a) and 2, or 1 (b) and 3 of this Article, then the contract of insurance shall terminate.

ARTICLE VI. ASSIGNMENTS

For other obligations issued in connection with an insured mortgage in the form of an indenture of trust providing for the issue and sale of bonds or other obligations and appointing a trustee to act on behalf of the holders of such bonds or other obligations may be transferred as provided in the indenture of trust.

For an insured mortgage, other than a mortgage executed in the form of an indenture of trust providing for the issue and sale of bonds or other obligations and appointing a trustee to act on behalf of the holders of such bonds or other obligations, may be transferred (but, except with the written approval of the Commissioner, only subsequent to full disbursement of the mortgage loan) to any person who is a mortgagee approved by the Commissioner. Upon such transfer and the assumption by the transferee of all obligations under the contract of insurance, the transferor shall be released from its obligations under the contract of insurance.

3. The contract of insurance shall terminate with respect to mortgage described in section 2 of this Article upon the happening of either of the following events:

(a) The acquisition of the insured mortgage by or the pledge thereof to any person, firm, or corporation, public or private, except as specifically provided in section 2.

(b) The disposal by a mortgagee of any partial interest in the insured mortgage by means of a declaration of trust or by a participation or trust certificate or by any other device unless with the prior written approval of the Commissioner: Provided, That this subsection (b) shall not be applicable to any mortgage so long as it is held in common trust and maintained by a bank or trust company (1) exclusively for the collective investment and reinvestment of monies contributed thereto by the bank or trust company in its capacity as a trustee, executor, or administrator; and (2) in conformity with the rules and regulations prevailing from time to time of the Board of Governors of the Federal Reserve System, pertaining to the collective investment of trust funds: Provided further, That this subsection (b) shall not be applicable to any mortgage so long as it is held in a common trust estate administered by a bank or trust company which is subject to the inspection and supervision of a governmental agency, exclusively for the benefit of other banking institutions which are subject to the inspection and supervision of a governmental agency, and which are authorized by law to acquire beneficial interests in such common trust estate, nor to any mortgage transferred to such a bank or trust company as trustee exclusively for the benefit of outstanding owners of undivided interests in the trust estate, under the terms of certificates issued and sold more than three years prior to said transfer, by a corporation which is subject to the inspection and supervision of a Governmental Agency.

ARTICLE VII. RIGHTS IN HOUSING FUND

Neither the mortgagee nor the mortgagor shall have any vested or other right in the "War Housing Insurance Fund."

ARTICLE VIII. AMENDMENTS

These Regulations may be amended by the Commissioner at any time and from time to time, in whole or in part, but such amendments shall not affect the contract of insurance on any mortgage already insured or any mortgage or prospective mortgage on which the Commissioner has made a commitment to insure.

ARTICLE IX. EFFECTIVE DATE

These Regulations shall be effective as to all mortgages with respect to which a commitment to insure under section 606 is issued on or after August 15, 1964.
Issued at Washington, D. C., August 15, 1964.

RAYMOND M. FINEY,
Federal Housing Commissioner.

(The following was ordered inserted in the record. See p. 1743.)

AUTHORITY OF THE RENTAL HOUSING DIVISION AND THE UNDERWRITING DIVISION TO GRANT INCREASES IN MORTGAGE AMOUNT UNDER 606 AND 207

With respect to section 207 or section 606 insured mortgages—

1. What were the procedures for increasing the insurable amount of a mortgage loan?

2. What were the authorities for such increases, and what latitudes and limitations were involved?

3. Who had the responsibility of determining the question of whether an increase was justified?

4. Who had the final authority to approve or disapprove an increase?

The foregoing questions will be discussed in the order above set out.

It should be borne in mind that, while there were some basic differences in sections 207 and 606 (such as the amounts of sec. 207 mortgages being based on "estimated value" and of sec. 606 mortgages being based on estimates of "the necessary current costs," neither being based on "actual cost"), still substantially the same basic principles and procedures were followed in increases under both sections.

It should also be borne in mind that the Commissioner never had any contractual relations of any kind with the mortgagor other than the powers of control vested in the holder of the preferred stock of the mortgagor corporation. His primary contractual relations were confined to the mortgagee. The mortgagee, in turn, of course, had contractual relations with the mortgagor.

1. The procedures followed in these cases were:

If there were changes in plans, or if there were increases in costs of materials or construction, which, in the opinion of the mortgagor, would justify an increase in the mortgage amount, the mortgagor would present his application for increase to the mortgagee, with the reasons therefor. If the mortgagee approved, the application, with the supporting facts, and with the recommendation of the mortgagee, would be forwarded to the local insuring office for review. The insuring office, after reviewing the material, would forward the same to the Assistant Commissioner, Rental Housing, Washington Headquarters, with its analysis and recommendations, for further review and approval or disapproval. By custom the Assistant Commissioner, Rental Housing, referred the request for increase to the Assistant Commissioner, Underwriting, for review of findings and recommendations of field office to determine whether the requested increase, or any part thereof, could be justified and recommended by the facts presented, and whether, after such increase, the mortgage amount would still be within the limitations fixed by the applicable section. The request was then forwarded to the Assistant Commissioner, Rental Housing, for final action in either approving or disapproving the increase. If the requested increase appeared from the Underwriting recommendation to be justified, either in whole or in part, the request was usually granted. The entire submission would then be referred to the legal staff for preparation of the increase letter, which was returned to the local insuring office for distribution.

2. The basic authority for increasing the insurable amount of a mortgage loan was, in the first instance, the implied authority contained in the provisions of the National Housing Act, it being deemed necessary, of course, that the limitations of the act as to maximum amounts be observed at all times. In 1949, section 515 of the act was added, which specifically set forth the authority which had been deemed to be implied in the general provisions of the act prior to the date of this amendment. Section 515 contained the following language:

"At any time prior to final endorsement for insurance, the Commissioner, in his discretion, may amend, extend, or increase the amount of any commitment, provided the mortgage, as finally endorsed for insurance is eligible for insurance under the provisions of this Act, and the rules and regulations thereunder, in effect at the time the original commitment to insure was issued."

The statutory authorizations were implemented in a way by General Order No. 4, in which (1) [III (A) 3] the Assistant Commissioner, Field Operations, was authorized to "approve a change in amount * * * of insurance contracts"; (2) [III (B) 1] the Assistant Commissioner, Underwriting, was made "responsible to the Commissioner for * * * construction cost determination"; (3) [III (C) 2] the Assistant Commissioner, Rental Housing, was authorized to "approve the increase in amount * * * of commitments for insurance"; (4) [III (D) 2] the Assistant Commissioner, Cooperative Housing, was authorized to "approve the increase in amount * * * of insurance contracts"; and (5) [III (G) 2] the Zone Commissioner (now regional director) was authorized to "approve a change in amount * * * of insurance contracts."

The basic policies governing increases, and the procedure to be followed in connection therewith, were further set out in section 608, Rental Housing Letters Nos. 103, 117, 168, and 192 (which were followed in sec. 207 cases also). Letter No. 103 (IV, 28 p. 20) sought to restrict any increase after initial endorsement to the Assistant Commissioner, Rental Housing. Later, under section 213, the Assistant Commissioner, Cooperative Housing, had this authority in section 213 cases, but supervision of this section was, after a time, transferred to the Rental Housing Division, which was, at that time, redesignated Multifamily Housing.

Copy of General Order No. 4 and copies of the above numbered letters are attached hereto.

The same latitude existed and the same limitations were applicable in cases of increase as would have been permissible or applicable under the same facts to the issuance of the original commitment. In no case could the increased amount exceed the statutory limitations fixed in the applicable section of the act.

3. The Underwriting Division had the responsibility of determining and recommending whether or not the requested increase, or any part thereof, did not exceed the limitations fixed by the applicable section of the act.

4. After review and recommendation the requested increase, or any part thereof, was either approved or disapproved by the Assistant Commissioner, Rental Housing, for all sections except 213, or by the Assistant Commissioner, Cooperative Housing, for section 213, until that office was discontinued and section 213 was placed under the supervision of the Assistant Commissioner, Rental Housing, who was, thereafter, designated as Assistant Commissioner, Multifamily Housing.

GENERAL ORDER NO. 4

To the heads of all divisions and offices:

Subject: Delegation of authority and assignment of duties

SECTION I. CITATION OF AUTHORITY

Section 1 of Title I of the National Housing Act provides in part as follows:

"* * * In order to carry out the provisions of this title and titles II, III, VI, VII, VIII, and IX, the Commissioner may establish such agencies, accept and utilize such voluntary and uncompensated services, utilize such federal officers and employees, and, with the consent of the State, such State and local officers and employees, and appoint such other officers and employees as he may find necessary, and may prescribe their authorities, duties, responsibilities, and tenure and fix their compensation, without regard to the provisions of other laws applicable to the employment or compensation of officers or employees of the United States. The Commissioner may delegate any of the functions and powers conferred upon him under this title and titles II, III, VI, VII, VIII and IX to such officers, agents, and employees as he may designate or appoint * * *"

Section 3 of Reorganization Plan No. 3 of 1947, effective July 27, 1947, provides in part as follows:

"Federal Housing Administration.—The Federal Housing Administration shall be headed by a Federal Housing Commissioner * * * There are transferred to said Commissioner the functions of the Federal Housing Administration."

SECTION II. DESIGNATION OF ACTING COMMISSIONER

Pursuant to the authority cited in Section I above, I hereby designate the officials of the Federal Housing Administration named below in this section to act in my place and stead with the title of "Acting Commissioner" with all of the powers, duties and rights conferred upon me by the National Housing Act, as amended, Reorganization Plan No. 3 of 1947, by any other act of Congress or by any Executive Order, in the event of my absence, illness or inability to act, providing that no official named below shall have authority to act as "Acting Commissioner" unless all those whose names appear before his are absent from their official post or unable to act:

BURTON C. BROVARD,
General Counsel.

HUGH ASKEW,
Assistant Commissioner, Field Operations.

CURT C. MACK,
Assistant Commissioner, Underwriting.

CLYDE L. POWELL,
Assistant Commissioner, Rental Housing.

WARD COX,
Assistant Commissioner, Cooperative Housing.

ARTHUR J. FRENTZ,
Assistant Commissioner, Title I.

EDWARD C. MCINTOSH,
Assistant to the Commissioner.

SECTION III. SPECIFIC DELEGATIONS TO NAMED POSITIONS

Pursuant to the authority cited in Section I above, the following assignment of duties and delegations of functions and powers are hereby made:

(A) To the position of Assistant Commissioner, Field Operations, and (except with respect to the authority contained in subdivisions 9 and 10 hereunder) under

his general supervision to the position of Deputy Assistant Commissioner, Field Operations:

1. To approve or cancel the approval of financial institutions as approved mortgagees, insured institutions, or approved lenders.

2. To issue commitments for insurance and to execute insurance contracts pursuant to such commitments.

3. To approve a change in amount, a change of the term, or any other modification of commitments for insurance or of insurance contracts.

4. To consent to the release of mortgagors.

5. To consent to the release of portions of the mortgaged property from the lien of the mortgage.

6. To approve the insurance of mortgages taken as security in connection with the sale of all properties conveyed to the Federal Housing Commissioner, including the authority to determine the value of such properties and facts relating to the eligibility of such mortgages for insurance.

7. To execute Certificates of Claim and requisitions to the Treasury Department or the issuance of debentures.

8. To execute assignments, releases or satisfactions of mortgages taken by the Commissioner as security in connection with the sale of acquired properties.

9. In connection with the sale of properties conveyed to the Commissioner to execute in my official name, as my agent, all deeds or other documents or instruments in connection with the conveyance of title thereto and deeds of release, assignments, or satisfactions of mortgages, deeds of trust, or other liens taken as security in connection therewith.

10. To execute the power and authority vested in the Commissioner under Section IV of the Regulations governing property and obligations held by the Federal Housing Commissioner and approved by the Secretary of the Treasury.

11. To direct the administration of Field Offices and to initiate and recommend to the Commissioner policies and procedures with respect thereto.

12. To issue Property Eligibility Statements or Commitments or any similar forms which may be provided in connection with new home loans under Regulations issued pursuant to Title I of the National Housing Act.

13. To reject or accept for insurance loans or advances of credit made under the provisions of Section 2 of Title I that require prior approval of the Federal Housing Commissioner.

14. To execute applications or other documents in connection with any functions which the Federal Housing Administration may perform for any other agency or agencies of the United States.

15. With respect to Section 609, to issue commitments for insurance and to execute insurance contracts pursuant to such commitments; to approve changes in amount, changes in term, or any other modifications of commitments for insurance or of insurance contracts; to consent to the release of part or parts of property delivered as security for insured loans; to exercise the authority of the Commissioner under the Administrative Rules and Regulations under Section 609 in any instance requiring the approval of the Commissioner; to execute in my name proofs of claim against bankrupt, insolvent or decedent estates; and to exercise the power and authority vested in the Commissioner under Section 609 (g) of Title VI of the Act.

16. To approve the sale and terms of sale of mortgages taken as security in connection with the sale of property conveyed to the Federal Housing Commissioner in connection with the insurance of mortgages under all sections of the Act covering one-to-four family dwellings and the insurance of mortgages under Section 603 pursuant to Section 610.

17. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 9, 1939 (53 Stat. 738).

(B) To the position of Assistant Commissioner, Underwriting, and (except with respect to the authority contained in subdivisions 3 and 4 hereunder) under his general supervision to the position of Deputy Assistant Commissioner, Underwriting:

1. To be responsible to the Commissioner for the underwriting aspects of all mortgage insurance programs, including valuation of realty, land planning, architecture and credit analyses, analyses of locations, subdivisions and areas and construction cost determination.

2. To plan, supervise, instruct in and review the work of the technical programs and procedures, including: the establishment of eligibility requirements as to property standards, minimum construction requirements and new methods

of dwelling construction for projects insured by the Federal Housing Administration; cooperation with industry and governmental agencies in the development of engineering methods, materials, mechanical equipment and architectural planning and design. Dissemination to the field offices and to the public of technical material on planning and construction; preparation of estimates and other studies on the use of materials.

3. To execute the power and authority vested in the Commissioner under Section IV of the Regulations governing property and obligations held by the Federal Housing Commissioner and approved by the Secretary of the Treasury.

4. In connection with the sale of properties conveyed to the Commissioner to execute in my official name, as my agent, all deeds or other documents or instruments in connection with the conveyance of title thereto and deeds of release, assignments, or satisfactions of mortgages, deeds of trust, or other liens taken as security in mention therewith.

5. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

(C) To the position of Assistant Commissioner, Rental Housing, and (except with respect to the authority contained in subdivisions 7 and 8 hereunder) under his general supervision to the position of Deputy Assistant Commissioner. Rental Housing:

1. To issue commitments for insurance and to execute insurance contracts under Sections 207, 608, Title VII, Title VIII, and Section 908, and any agreements or instruments required in connection therewith.

2. To approve the increase in amount, the extension of term, or any other modification of commitments for insurance or of insurance contracts under Sections 207, 210, 608, Title VII, Title VIII, and Section 908.

3. To approve or disapprove "change orders" during construction under Sections 207, 608, Title VII, Title VIII, and Section 908.

4. To approve or cancel the approval of financial institutions as approved mortgagees, insured institutions or approved lenders.

5. To consent to the release of mortgagors and to the release of portions of the mortgaged property from the lien of the mortgage, with respect to mortgages insured under Sections 207, 210, 608, Title VII, Title VIII, and Section 908.

6. To approve or disapprove for insurance advances of mortgage money during construction under Sections 207, 608, Title VII, Title VIII, and Section 908, and to execute such instruments as may be necessary in connection therewith.

7. In connection with the sale of properties conveyed to the Commissioner, to execute in my official name, as my agent, all deeds or other documents or instruments in connection with the conveyance of title thereto, and deeds of release, assignments or satisfactions of mortgages, deeds of trust or other liens taken as security in connection therewith.

8. To execute the power and authority vested in the Commissioner under Section IV of the Regulations governing property and obligations held by the Federal Housing Commissioner and approved by the Secretary of the Treasury.

9. To execute Certificates of Claim and requisitions to the Treasury Department for the issuance of debentures.

10. To approve the insurance of mortgages taken as security in connection with the sale of properties conveyed to the Federal Housing Commissioner in connection with the insurance of mortgages under Sections 207 and 608, Titles VII and VIII, and Section 908, including the authority to determine the value of such properties and facts relating to the eligibility of such mortgages for insurance.

11. To approve the modification in the terms of, and authorize the foreclosure of, mortgages assigned to the Federal Housing Commissioner in exchange for debentures under Sections 207 and 608, Titles VII and VIII, and Section 908.

12. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

(D) To the position of Assistant Commissioner, Cooperative Housing and (except as to the authority contained in paragraphs 7 and 8 hereunder) under his general supervision to the position of Deputy Assistant Commissioner, Cooperative Housing, with respect to the insurance of mortgages under Section 213 of the National Housing Act:

1. To issue commitments for insurance and to execute insurance contracts and any agreements or instruments required in connection therewith.

2. To approve the increase in amount, the extension of term, or any other modification of commitments for insurance or of insurance contracts.

3. To approve or disapprove "change orders" during construction.

To approve or cancel the approval of financial institutions as approved mortgagees, insured institutions or approved lenders.

To consent to the release of mortgagors and to the release of portions of the mortgaged property from the lien of the mortgage.

To approve or disapprove for insurance advances of mortgage money during construction, and to execute such instruments as may be necessary in connection therewith.

In connection with the sale of properties conveyed to the Commissioner, to execute in my official name, as my agent, all deeds or other documents or instruments in connection with the conveyance of title thereto, and deeds or releases, judgments or satisfactions of mortgages, deeds of trust or other liens taken as security in connection therewith.

To execute the power and authority vested in the Commissioner under Section IV of the Regulations governing property and obligations held by the Federal Housing Commissioner and approved by the Secretary of the Treasury.

To execute Certificates of Claim and requisitions to the Treasury Department for the issuance of debentures.

3. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved July 10, 1939 (53 Stat. 738).

4. To approve the insurance of mortgages taken as security in connection with the sale of all properties conveyed to the Federal Housing Commissioner with respect to the insurance of mortgages covering project mortgages insured under Section 213, including the authority to determine the value of such properties and facts relating to the eligibility of such mortgages for insurance.

5. To approve the modification in the terms of, and authorize the foreclosure of mortgages assigned to the Federal Housing Commissioner in exchange for debentures.

6. To the position of Assistant Commissioner, Title I, and (except as specified in subdivisions 4 and 5 hereunder) under his general supervision to the duty Assistant Commissioner, Title I, with respect to the insurance of loans and advances of credit made under Section 2 of Title I of the National Housing Act.

To approve or cancel the approval of financial institutions as approved mortgagees, insured institutions or approved lenders.

To issue and cancel Contracts of Insurance under Title I and to transfer contracts and the rights and benefits accruing thereunder between lending institutions.

To exercise the authority of the Commissioner under the Regulations governing Title I loans in any instance which is subject to the approval of the Commissioner.

To execute the power and authority vested in the Commissioner under the Regulations governing property and obligations held by the Federal Housing Commissioner and approved by the Secretary of the Treasury, except that the authority to execute the power and authority under Section IV of such Regulations may be exercised only by the Assistant Commissioner, Title I.

In connection with the sale of properties conveyed to the Commissioner, to execute in my official name, as my agent, all deeds or other documents or instruments in connection with the conveyance of title thereto and deeds of release, judgments or satisfactions of mortgages, deeds of trust, or other liens taken as security in connection therewith. The authority in this subdivision may be exercised only by the Assistant Commissioner, Title I.

To reject or accept for insurance loans or advances of credit made under provisions of Title I, that require the prior approval of the Federal Housing Commissioner. To execute in my name such documents as are necessary to transmit title in and to any debt, contract, claim, property or security. To execute in my name proofs of claim against bankrupt, insolvent or decedent estates and to execute releases of obligations to the Federal Housing Administration, including but not limited to notes, judgments, and other evidences of indebtedness, to release liens of any kind held as security for such obligations, in those cases where the obligor has paid the full amount due thereon to the Federal Housing Administration.

To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved July 10, 1939 (53 Stat. 738).

F) To the position of General Counsel and under his general supervision, to be Associate General Counsel:

1. On behalf of the Commissioner to receive and accept service of all summons, subpoenas, and other court process directed to the Commissioner.

2. To sign, acknowledge and verify on behalf of and in the name of the Federal Housing Commissioner, all declarations, bills, pleas, answers, and all other pleadings in any court proceedings which are brought in the name of or against the Federal Housing Commissioner, or in which he is named as a party.

3. To advise and consult with the Commissioner and with heads of the several divisions concerning the legal aspects of the policies of the Federal Housing Administration.

4. To interpret the provisions of the National Housing Act and of the Rules and Regulations promulgated thereunder; revise the Rules and Regulations.

5. To collaborate with the General Counsel of the Housing and Home Finance Agency in connection with legislation before Congress pertaining to the Federal Housing Administration program, recommending changes by way of amendments.

6. To administer all matters pertaining to the preparation of legal forms necessary to the work of the Administration; the submission of cases to the Attorney General for legal action; investigation of fraud; or violations of the National Housing Act; and the determination of acceptability of title.

7. To certify that official long-distance telephone calls made were necessary in the interest of the Government pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

(G) To the position of Regional Director and to each of them, and under their supervision to their respective Assistant Regional Directors, Field Office Directors, Field Office Assistant Directors, and Field Office Executive Assistants:

1. To issue commitments for insurance and to execute insurance contracts pursuant to such commitments.

2. To approve a change in amount, a change of the term, or any other modification of commitments for insurance or of insurance contracts.

3. To consent to the release of mortgagors.

4. To consent to the release of portions of the mortgaged property from the lien of the mortgage.

5. To approve or disapprove for insurance advances of mortgage money during construction, and to execute such instruments as may be necessary in connection therewith.

6. To approve or disapprove "change orders" during construction.

7. To issue Property Eligibility Statements or Commitments or any similar forms which may be provided in connection with new home loans under Regulations issued pursuant to Title I of the National Housing Act.

8. In connection with new home loans under the Regulations issued pursuant to Section 2 of Title I of the National Housing Act, to approve the sale by insured institutions of acquired property where the insured institution exercises its option to sell the property in the open market in lieu of a conveyance to the Commissioner.

9. To reject or accept for insurance loans or advances of credit made under the provisions of Title I that may require the prior approval of the Federal Housing Commissioner.

10. To approve the insurance of mortgages taken as security in connection with the sale of all properties conveyed to the Federal Housing Commissioner, including the authority to determine the value of such properties and the relating to the eligibility of such mortgages for insurance.

11. To execute applications or other documents in connection with any functions which the Federal Housing Administration may perform for any the agency or agencies of the United States.

12. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

13. In connection with the sale of Commissioner-owned property, to execute the assignment of the interest of the contract purchaser under a contract deed and to the substitution of mortgagors under a mortgage held by the Commissioner.

14. To execute contracts for the sale of any properties conveyed to the Federal Housing Commissioner, except properties acquired under Sections 207, 213, 608, Title VII, Title VIII, and Section 908, or sales of five or more properties as a group.

15. To execute any regulatory agreements required by the Administration Rules under Sections 207, 213, 608, Title VII, Title VIII, and agreements with

spect to certification of costs required by the Administrative Rules under section 908.

16. To execute contracts for supplies and services in accordance with the provisions of the Field Operating Manual or as approved by the Director, Property Management, either specifically or as a part of an acquired property management program.

(H) To the position of Comptroller and under his general supervision to the position of Deputy Comptroller:

1. To requisition the advance of funds.
2. To approve all expenditures and receipt vouchers necessary to carry out provisions of the National Housing Act.
3. To endorse checks for deposit or collection.
4. To certify financial statements.
5. To certify the findings of the Compliance Committee in regard to the waiver the Regulations under the provisions of Section 2 (c) of the National Housing Act, as amended.
6. To certify as to delegations of authority by the Commissioner and as to the truth or accuracy of copies of original papers or documents in the possession of the Administration.
7. To devise accounting procedures and to administer the fiscal policies of the Administration.
8. To execute vouchers or applications and receipt for any payments received representing refunds of taxes or other payments made by the Commissioner in connection with property acquired under the provisions of the National Housing Act.
9. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

10. To designate certifying officers and to revoke such designations, to execute and submit to the Treasury Department necessary statements and schedules with respect thereto, pursuant to Public Law 389, approved December 29, 1941, and standards and procedures of the Secretary of the Treasury thereunder.

11. To execute Certificates of Claim and requisitions to the Treasury Department for the issuance of debentures.

(I) To the position of Director of Research and Statistics, and under his general supervision to the position of Deputy Director of Research and Statistics:

1. To advise the Commissioner on the economic aspects of mortgage insurance activities. Plan and administer the activities of the Research and Statistics Division. Consult with the representatives of other divisions and other agencies on problems of housing and economic research.
2. To initiate, and to undertake on request of other officers, actuarial studies regarding insurance operations under the Act, including, in collaboration with the Comptroller, studies of the distribution of expenses and income; and to prepare studies of the adequacy of premiums and reserves and such other matters as are required by the Commissioner for the formulation of sound actuarial policy.

3. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

(J) To the position of Director of Personnel, and under his general supervision to the position of Deputy Director of Personnel:

1. To be responsible for the development, establishment, and operation of a personnel program.
2. To make appointments and to remove or separate personnel; to fix the administrative workweek; to approve overtime work and to prescribe rules and regulations regarding overtime.
3. To act as the representative of the Federal Housing Administration on the Federal Council of Personnel Administration, with the Civil Service Commission, and all Government agencies and other organizations with respect to personnel matters.
4. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

(K) To the position of Director of the Budget Division, and under his general supervision to the position of Deputy Director of the Budget Division:

1. To be responsible to the Commissioner for all budget activities and to act as the Commissioner's representative in all budget matters in meetings held in the Bureau of the Budget or other agencies.

2. To be responsible for the development and execution of the budget program, including the preparation of budget estimates and justification therefor; the preparation of requests for apportionment of funds and justification therefor; and the allotment of funds within the limits of appropriation acts, apportionments and other limitations.

3. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

(L) To the position of Director, Administrative Services, and under his general supervision to the position of Deputy Director, Administrative Services:

1. To approve telephone contracts.

2. To execute leases of property for Federal Housing Administration use.

3. To issue orders for travel in accordance with the Standardized Government Travel Regulations, as amended, and applicable law, including authorization for travel by extra fare train and plane, and for travel incident to permanent change of station, to approve travel performed and expense incurred on account of an emergency or without prior authority in accordance with the Standardized Government Travel Regulations, as amended, and to approve and authorize the transportation of household goods and personal effects at Government expense in accordance with applicable Executive Orders and amendments thereto, and provisions of law.

4. To issue purchase orders, including printing and binding requisitions to the Government Printing Office.

5. To incur obligations and authorize expenditures for services and for the purchase of equipment, materials, and supplies other than in connection with acquired properties.

6. To approve all agreements involving reimbursements, including agreements with others for the performance of any function by or on behalf of the Federal Housing Administration, after first obtaining the recommendation of any division affected.

7. To issue orders for publications of notices and advertisements in newspapers, magazines, and periodicals. (See Sec. 3828, Rev. Stat.)

8. To execute contracts for services and for the purchase of equipment, materials, and supplies, including contracts for materials, equipment, supplies, and services, for the maintenance and operation of acquired properties.

9. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

10. To be responsible for the arrangement, format and general presentation of all forms and publications of the Administration.

11. To be responsible for the operation and maintenance of the duplicating service of the Administration, including the maintenance of the duplicating and binding service, mechanical addressing and mailing service and photographic laboratory.

12. To be responsible for the maintenance of a perpetual inventory of forms, costs records, and stockroom for materials necessary and incidental to the above responsibilities.

13. To be responsible for the radio spot announcement program and other radio material and to coordinate and supervise the FHA Home Show and exhibit program.

14. To perform the necessary functions and responsibilities in connection with the disposal of property of the Administration (other than property acquired under insurance contracts) as provided in applicable statutes and Regulations issued pursuant thereto.

15. To make final determinations of responsibility, including the fixing of or relief from personal liability, for any disposition of lost, stolen, damaged or destroyed property, except that if the original cost of any such property exceeded \$100, the recommendations and findings of a committee or board established by the Commissioner shall be obtained.

(M) To the position of Auditor and under his general supervision, to the position of Deputy Auditor:

1. To be responsible for a continuing audit of the fiscal accounts of the Administration, including the fiscal accounts of the Field Offices, and the accounts of approved Mortgagees not under governmental supervision to determine compliance with the supervision requirements of the Administrative Rules.

2. To conduct audits of rental housing corporations and Title VII investors, on-site examination of fiscal records and accounts of such corporations and in-

vestors, on-site audits of the accounts and records of rental brokers and on-site examinations of such accounts and records to effect compliance with the fiscal and administrative requirements of the Administration.

3. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

(N) To the position of Director, Property Management, and under his general supervision to the position of Deputy Director, Property Management:

1. To operate and manage all properties conveyed to the Federal Housing Commissioner in accordance with General policies promulgated by the Property Sales Committee and approved by the Commissioner, including authority with respect to such property to—

(a) approve all offers to rent or purchase, except that offers to purchase properties acquired under Sections 207, 213 (Project Mortgages), 608, Title VII, Title VIII, and Section 908, or offers to purchase a group of five or more properties acquired under other sections of the Act, shall be subject to the approval of the Commissioner and shall be accompanied by the recommendations of the Property Sales Committee;

(b) make repairs, alterations, and improvements;

(c) execute such contracts, leases, assignments, and instruments as may be necessary in the rental or sale of such properties other than deeds or other documents in connection with the conveyance of title, deeds of release, assignments or satisfactions of mortgages, deeds of trust or other liens taken as security in connection therewith;

(d) authorize expenditures.

2. To handle and dispose of claims of the mortgagee against the mortgagor or others, arising out of mortgage transactions and assigned to the Commissioner in connection with the insurance of mortgages covering one- to four-family dwellings, and the insurance of mortgages under Section 603 pursuant to Section 610.

3. To certify that official long-distance telephone calls made were necessary in the interest of the Government, pursuant to Section 4 of the Act approved May 10, 1939 (53 Stat. 738).

SECTION IV. DELEGATIONS TO COMMITTEES

Pursuant to the authority cited in Section I above, the following assignments of duties and delegations of functions and powers are hereby made:

(A) To a Committee to be known as the "Executive Board," consisting of the Commissioner as Chairman; the Deputy Commissioner as Vice Chairman; Assistant to the Commissioner; the Assistant Commissioner, Field Operations; the Assistant Commissioner, Rental Housing; the Assistant Commissioner, Underwriting; the Assistant Commissioner, Title I; the Assistant Commissioner, Cooperative Housing; the Director, Administrative Services; the General Counsel; the Comptroller; the Director of the Budget Division; the Director of Personnel; the Director of Research and Statistics; the Director, Property Management; the Auditor; the Administrative Officer (Minority Group Housing); and the Regional Directors:

1. To consider and discuss matters of general policy and to advise the Commissioner with respect to matters affecting the activities of the various divisions of the Administration.

The Executive Board or any part thereof shall meet upon call by the Chairman or Vice Chairman, who will designate and excuse from attendance any member having no direct interest in the matters to be discussed at the meeting.

In the absence of the Chairman, the Vice Chairman shall preside and in the absence of any member designated by the Chairman or Vice Chairman as being interested in the matters to be discussed, the principal assistant of such absent member shall attend the meeting and serve in the place of such member.

(B) To a Committee to be known as the "Property Sales Committee," consisting of the Assistant Commissioner, Rental Housing, Chairman; Assistant Commissioner, Field Operations; Assistant Commissioner, Underwriting; Assistant Commissioner, Cooperative Housing; the Director, Property Management; the General Counsel; and the Regional Director having jurisdiction:

1. To consider and recommend to the Commissioner the approval or disapproval of any offer to purchase a property or mortgage acquired by the Commissioner under the provisions of Sections 207, 213 (Project Mortgages) and 608, Titles VII and VIII, and Section 908, and the sale and terms of sale of mortgages taken

as security in connection with the sale of properties acquired under any such sections and titles, and any offer to purchase a group of five or more properties acquired by the Commissioner in connection with any other section of the Act; and to recommend to the Commissioner general policies to govern the sales and rentals of properties acquired by the Commissioner, and the sale and terms of sale of mortgages taken as security in connection with the sale of properties acquired by the Commissioner in connection with the insurance of mortgages covering one- to four-family dwellings and the insurance of mortgages under Section 603 pursuant to Section 610, and the handling and disposition of claims assigned to the Commissioner with respect thereto. A quorum shall consist of four members, one of which shall be the Legal Division representative. In the absence of any member, an alternate shall not be designated to attend except upon request of the Chairman.

(C) To a Committee to be known as the "Property Management Expenditures Committee," consisting of the following: the Director, Property Management, Chairman; the Assistant Commissioner, Rental Housing; Assistant Commissioner, Field Operations; Assistant Commissioner, Cooperative Housing; General Counsel; the Director, Administrative Services; Comptroller; and the Regional Director having jurisdiction:

1. To consider and determine whether or not an expenditure is "necessary to carry out the provisions" of Titles I, II, VI, VII, VIII, and IX as such term is used in Section 1 of the National Housing Act, whenever such a determination is, in the opinion of the General Counsel, necessary to support the legal authority of the Commissioner to make such expenditure. A quorum shall consist of five members, one of which shall be the Legal Division representative. Minutes of each meeting which include a determination by the Committee shall be forwarded to the Commissioner prior to action being concluded in connection with such determination. In the absence of any member, the principal assistant of such absent member shall attend meetings and serve in place of such member. In the absence of the Chairman, the members of the Committee shall choose a temporary Chairman.

(D) To a Committee to be known as the "Compliance Committee," consisting of the Assistant Commissioner, Title I; the General Counsel or his designee; the Director, Administrative Services; the Assistant Commissioner, Field Operations; and the Comptroller; any three of which shall constitute a quorum:

1. To waive compliance with regulations heretofore or hereafter prescribed with respect to the interest and maturity of, and the terms, conditions, and restrictions under which loans, advances of credit, and purchases may be insured under Section 2 and Section 6 of Title I, if in the judgment of the Committee the enforcement of such regulations would impose an injustice upon an insured institution which has substantially complied with such regulations in good faith and refunded or credited any excess charge made, and if such waiver does not involve an increase of the obligation of the Commissioner beyond the obligation which would have been involved if the regulations had been fully complied with. In the absence of any member, the principal assistant of such absent member shall attend meetings and serve in place of such member.

(E) To a Committee to be known as the "Finance Committee," consisting of the Deputy Commissioner, Chairman; General Counsel; Assistant Commissioner, Field Operations; Assistant Commissioner, Underwriting; Assistant Commissioner, Rental Housing; Assistant Commissioner, Cooperative Housing; Assistant Commissioner, Title I; Auditor; Actuary; Comptroller; and the Director of Research and Statistics:

1. To study all Federal Housing Administration fiscal matters and prepare recommendations to the Commissioner. Reports of these studies which include recommendations to the Commissioner on fiscal matters shall be prepared and signed by the Chairman of the Committee. Meetings shall be held upon call of the Chairman. In the absence of any member of the Committee, an alternate shall not be designated to attend except upon request of the Chairman.

(F) To a Committee to be known as the "Actuarial Advisory Committee," consisting of the Actuary, Chairman; Comptroller; and the Director of Research and Statistics:

1. To prepare recommendations to the Commissioner with respect to actuarial policy and to initiate basic actuarial studies on the operations of the various insurance funds. Reports on these studies which include recommendations to the Commissioner on actuarial policy shall be approved and signed by the appointed members of the Committee. Meetings shall be held upon call by the Chairman, but not less often than bimonthly. In the absence of any member

of the Committee, an alternate designated by the member shall attend and participate in the work of the Committee.

(G) To a Committee to be known as the "Personnel Ceiling Committee," consisting of the Director of Personnel, Chairman; the Director of the Budget Division; and the Assistant to the Commissioner:

1. To establish a personnel ceiling for each division in the Administration, and to review such ceilings each quarter immediately after receiving the agency personnel ceilings established by the Bureau of the Budget. In the absence of any member of the Committee, an alternate designated by the member shall attend and participate in the work of the Committee.

(H) To a Committee to be known as the Survey Committee, consisting of the Director, Budget Division, or his designee, Chairman; the Comptroller, or his designee; and the Auditor or his designee:

1. To review the findings of the Director of Administrative Services as to the disposal of property of the Administration in any instance where under applicable statutes and regulations issued pursuant thereto the approval of a reviewing authority is required.

2. To review the circumstances regarding lost, damaged, stolen and destroyed property where the original cost of any specific item of such property exceeded \$100 and to advise the Director of Administrative Services as to the recommended disposal of such property and to recommend the fixing of or relief from personal liability based upon its findings in each case.

(I) To a Committee to be known as the Field Operations Committee, consisting of the Assistant Commissioner, Field Operations, Chairman; the Deputy Assistant Commissioner; and the Regional Directors; for the purpose of supplementing the overall supervisory responsibilities of the Assistant Commissioner, Field Operations, and the direct supervisory responsibilities of the respective Regional Directors:

1. To consider and discuss all matters concerning the operations of Field Offices in the interest of maintaining a consistent and uniform application of Administrative procedures and instructions throughout all Field Offices; and to conduct a continuing study of procedures and instructions governing the operations of Field Offices for the purpose of recommending revisions and amendments in such existing procedures and instructions as well as the formulation of additional instructions and procedures with respect to new programs.

2. In the absence of any member, the principal assistant of such absent member shall attend meetings and serve in the place of such member. In the absence of the Chairman, the Deputy Assistant Commissioner, Field Operations, shall serve as Chairman.

Issued at Washington, D. C., this 29th day of January 1953.

WALTER L. GREENE, *Commissioner*.

FEDERAL HOUSING ADMINISTRATION,
Washington, D. C., June 20, 1946.

To: Directors of all field offices
Subject: section 608. Administrative procedure

Revised copies of the Rules and Regulations for Section 608, effective May 22, 1946, will be forwarded to you under separate cover, as soon as available from Government Printing Office. A supply of the revised forms hereinafter mentioned will also be forwarded.

Below is set forth administrative procedure for Section 608 through final endorsement of the credit instrument, and disposition of the docket. These instructions pertaining to Section 608 processing cancel and supersede paragraphs 00 to 849, inclusive, of the Field Operating Manual.

This procedure has been indexed to provide for ready reference (see p. 51) and has been arranged in accordance with the chronology of operations, beginning with the application, continuing through commitment, construction, completion, final endorsement of the credit instrument, and disposition of dockets and fiscal instructions. It should be noted that a distinction has been made between cases in which mortgage proceeds will be advanced and insured during the course of construction (under "Commitment for Insurance," Form 2432-W) and those in which total mortgage proceeds will be advanced and insured only upon completion of construction (under "Commitment to Insure Upon Completion," Form 2453-W). The Director, therefore, may locate necessary instructions according to the nature and status of the case. (Note: Closing Agent should note that while the procedure herein mentions their duties often,

procedure is not intended to represent complete instructions for them. Additional instructions for Closing Attorneys will be forwarded by the Legal Division.)

1. "Application for Mortgage Insurance," Form 2013-W

This form, self-explanatory, shall be completed and executed by the sponsor and proposed mortgagee and shall be submitted by the mortgagee to the FHA Insuring Office in duplicate. The application must be accompanied by all exhibits required by Section III, Paragraph 2, under "Explanatory Notes" on the face of the form. (Note: Form 2013-W itself states it will be submitted in triplicate. Duplicate submission will be acceptable.)

Form 2013e shall be executed in triplicate by the mortgagor and submitted along with other required exhibits through the mortgagee to the Insuring Office. This form is self-explanatory, being the mortgagor's certification of occupancy preference.

1. Receiving.—Upon receipt, the application will be date-stamped and the symbol and number of the Schedule of Collection will be inserted in the space provided by the stamp.

2. Fees.—For mortgages not exceeding \$200,000 the application must be accompanied by the mortgagee's check to cover an application fee at the rate of Three Dollars (\$3.00) per Thousand Dollars (\$1,000) of the original face amount of the mortgage loan for which the application is made. For mortgage exceeding \$200,000 the application must be accompanied by the mortgagee's check to cover an application fee computed at the rate of One Dollar and Fifty Cents (\$1.50) per Thousand Dollars (\$1,000) of the original face amount of the mortgage loan applied for; commitment fee, an amount, which when added to any application fee collected as indicated above, will aggregate Three Dollars (\$3.00) per Thousand Dollars (\$1,000) of the amount of the commitment, shall be collected at the time commitment is issued.

3. Numbering.—The receiving clerk will assign to the application and all accompanying papers the project number. The project number, as heretofore, will consist of eight digits. The first three digits will indicate the field office and the next five digits (after a hyphen) being the serial number assigned to each application consecutively. Each field office will use a new block of serial numbers starting with 40001 in order to differentiate from Section 608 war housing.

4. Routing of Dockets.—An Original Docket and a Duplicate Docket will be established for each case in two black pressboard binders. (Note: Where black pressboard binders are not available at the time application is received the material will be set up in two brown manila legal size folders properly marked for identification purposes pending receipt of black pressboard binders. These binders, Stock Item No. 53-C-14975-(B), the supply of which is limited, will be furnished upon requisition only to those offices which are actually in negotiation for Section 608 projects, and the requisition should state the project for which intended.) The Original Docket will be routed through the Director to the Chief Underwriter. The Duplicate Docket will be filed so as to be available for additional filing.

The Original Docket will be known as the Washington Docket and the Duplicate Docket will be retained in the Insuring Office.

5. Exhibits.—The application and accompanying exhibits will be arranged on the right hand side of the Dockets, building from the bottom up in the following order (city map on bottom and application on top).

Name of document	Form No	Original docket	Duplicate docket
City map.....		1	1
Copy of zone ordinances.....		1	1
Zoning map (if any).....		1	1
Topographical survey.....		1	1
Preliminary drawings.....		1	1
Outline specifications.....	2435-W	1	1
Photographs (sets).....		1	1
Legal description of property.....		1	1
Evidence of ownership, etc.....		1	1
Request for determination of prevailing wages.....	FH21 (a)	1	1
Application for mortgage insurance.....	2013-W	1	1
Supplement to 2013-W.....	2013e	1	1
Personal and financial statement.....	2417	1	1
Other credit data (if any).....		1	1

Prevailing Wage Determination.—The original of Form FH 21 (a), "Request for Determination of Prevailing Wages" (Department of Labor Form), which carries the application, is to be mailed promptly to the Assistant Commissioner, Rental Housing and Property Management, who will transmit it to the Secretary of Labor for determination and will notify the Director when determination has been made.

Commitment for insurance. Form 2432-W

Underwriting determinations have been made on Form 2438-W, "Report to the Review Committee and Final Determination of the Chief Underwriter," and the receipt of a commitment is in order, preparation and issuance of the commitment is the responsibility of the Director, who will be guided by the following instructions:

The name of the mortgagee, the sponsors and proposed mortgagor, addresses of the project number, and the amount of the mortgage will be inserted in the spaces indicated at the head of and in the first paragraph of the form.

Condition 1 will be inserted the amount of the first mortgage insurance premium calculated at one-half per centum ($\frac{1}{2}\%$) of the face amount of the mortgage for which the commitment is issued.

Condition 2 in the spaces provided will be inserted:

The interest rate as revealed in Condition 2 (b) of the applicable Form 2438-W.

Date of First Payment.—The number of the month upon the first day of amortization must commence. The date recommended by the Chief Underwriter will be found at the bottom of Form 2438-W. In fixing the date for commencement of amortization the Director will bear in mind that in cases involving mortgages not in excess of \$200,000 amortization must commence not later than the first day of the 12th month after the date of the mortgage, and in cases involving mortgages in excess of \$200,000 amortization must commence not later than the first day of the 18th month after the date of the mortgage. Within these limitations the Director will exercise his sound discretion in fixing the date for commencement of amortization, taking into consideration the recommendation of the Chief Underwriter and bearing in mind that, while it is desirable that the mortgagor have sufficient time within which to complete the project and obtain occupancy prior to the commencement of amortization, it is required that the lapse of time between completion of the project and commencement of amortization be not longer than necessary.

Number of Monthly Payments.—The number of monthly payments to be made on principal and interest and the amount of the level annuity payment, as the case may be. The number and amount of necessary level annuity payments may be determined by reference to Form 2410 (Rev. 5/26/42) and application thereto. The established interest and amortization rates as revealed by Condition 2 (b) (d) in the applicable Form 2438-W. The initial principal payment on an annuity basis must be not less than 2% of the original face amount of the mortgage.

In the case of a declining annuity, principal payments must be at a constant rate of not less than 3% per annum of the original face amount of the mortgage. Therefore, the number of monthly payments must not be more than 400.

Condition 3 (e) will be inserted a description of the property sufficient to identify it, as well as a statement of the approximate square-footage.

Working Capital.—In Condition 3 (h) (1) will be inserted the amount of estimated working capital, which shall be not less than 3% of the amount of the mortgage for which the commitment is issued.

Condition 3 (h) (2) in the spaces provided there will be inserted:

The amount of cash and services, if any, required over and above the costs of mortgage for completion of the project on the basis of "Federal Housing Administration total estimated cost (exclusive of land and required construction off the site)." This amount will equal the difference between the total estimated cost and Item 2 "Estimated Requirements for Completion of the Project" as shown on Page 4 of the applicable Form 2264-W.

The sum of the builders' and architects' fee as revealed on Page 3 of the applicable Form 2264-W, represents the maximum amount by which the cash required in Condition 3 (h) (2) may be reduced at closing.

Condition 3 (h) (3) will be inserted the amount of the cash deposit required, if any, to assure installation and completion of offsite utilities and other items. This figure must be obtained directly from the Chief Underwriter.

8. *Fund for Replacements.*—In Condition 4 (b) will be inserted the total annual requirement for replacements as determined from Page 1 of Form 2264-W. (Note: 4 (b) completed only when mortgage amount exceeds \$200,000.)

9. *Expiration of Commitment.*—In Condition 8 provision will be made for the expiration of the commitment in not more than 90 days. (Note: If it is necessary to extend the commitment, upon request by the Mortgagee, the Director, in his discretion, may extend the expiration date of the commitment for additional 30-day periods. Letters of extension shall be prepared and distributed in accordance with the procedure for preparation and distribution of commitments outlined in paragraph 12 below.)

10. In Condition 9 (a) will be inserted as a commitment fee an amount which, when added to the application fee, will equal Three Dollars (\$3.00) per Thousand Dollars (\$1,000) of the face amount of the mortgage for which the commitment is issued. In the event that the full fee has previously been collected, Condition 9 (a) may be deleted.

11. *Collateral Conditions of the Commitment.*—Under Condition 9 (as subsections (b), (c), etc.) there will also be inserted as conditions of the commitment any specific conditions, such as planning requirements and offsite improvements and other requirements not covered by the commitment, as revealed in the applicable Forms 2438-W and 2411-W, or as recommended by the Chief Underwriter, or as determined by the Director. In case of requirements for offsite improvements the requirements must be sufficiently specific in detail to avoid misunderstanding and the estimated cost of each such improvement must be stated. In the event that drawings and specifications are necessary for offsite requirements they should be properly identified under Condition 9. In the event space provided on the commitment for these conditions is not sufficient, there will be attached and stapled to the commitment as "Exhibit A" a description of all requirements.

12. *Distribution of Commitment.*—The commitment will be dated as of the date of issue. Commitments will be prepared in sextuple. Distribution will be as follows:

(a) To Mortgagee: Original and duplicate together with duplicate copies of the applicable Form 2419-W and one copy of the applicable Form 2264-W. (One copy of the commitment and one copy of Form 2419-W forwarded to the mortgagee are intended for the use of the mortgagor.)

(b) To Closing Attorney: One copy, together with one copy of Forms 2264-W, 2283-W, and 2443-W. (See III hereafter for preparation of Form 2443-W.)

(c) To Washington Docket: One copy.

(d) To Duplicate Docket: One copy.

(e) To Assistant Commissioner, Rental Housing and Property Management: One copy, together with one copy of Forms 2264-W and 2419-W.

NOTE.—FHA Form 2419-W will be forwarded in accordance with (a) and (c) above *only* when the mortgage is in excess of \$200,000.

13. *Assignments.*—In case of assignment of the commitment, such assignment must be to an approved mortgagee, and the Director will require from the assignor a release in writing of its rights under the commitment and from the assignee an acceptance in writing of the obligations of the assignor under the commitment. The assignment and acceptance should be submitted in duplicate, the original to be filed in the Washington Docket and the duplicate to be filed in the Duplicate Docket.

III. "Information for Closing Attorney", Form 2443-W

It is the responsibility of the Director immediately upon issuance of a commitment to forward to the Closing Attorney a completed Form 2443-W, with attachments, as provided in II-12 (b) above. The necessity for Form 2443-W arises from the fact that under the Rules there are certain matters subject to approval of the Commissioner involving alternatives and it is necessary that the Closing Attorney be advised of final determinations with respect thereto. In preparing Form 2443-W the Director will be guided by the following instructions:

1. The project number, location, the names and addresses of the mortgagor, the mortgagor's attorney and the mortgagee will be inserted at the points indicated. The name and address of the mortgagor's attorney may be obtained from the applicable Form 2013-W.

2. *Title Evidence.*—A policy of title insurance is required but in the event the mortgagee is unable to furnish such policy for reasons satisfactory to the Commissioner, the Commissioner may accept other evidence of title. (See IV-4

hereafter.) Upon determination of this question the Director will check on the form the type of title evidence which will be acceptable at closing.

3. *Assurance of Completion.*—This may be in the form of a bond of a surety company in standard American Institute of Architect's form, or on FHA Form 452-W, or may be in the form of an escrow of cash or securities. (See IV-14 hereafter.) Upon determination of the type of assurance which will be acceptable the Director will check type on the form. In the event a bond is to be accepted the name of the surety will be inserted. In the event an escrow is to be accepted and is to be deposited with a depository other than the mortgagee the name of the depository will be inserted.

4. *Completion of Offsite Facilities.*—Assurance of installation and completion of offsite facilities may be in the form of (a) a cash escrow with the mortgagee under the control of the mortgagee with an approved depository, or (b) assurances from public authorities or public utility companies, as the case may be, that the work will be performed, or (c) in the form of a contract between the principal sponsor or sponsors and an acceptable contractor assured by a surety bond. (See IV-17 hereafter.) Upon determination of the form of the assurance the Director will check the applicable item on the form. In case of a cash escrow with a depository other than the mortgagee the name of the depository will be given. In case of assurances from a public authority or a public utility company description of the type of assurance acceptable will be inserted in the form. In case of a contract between the sponsor or sponsors and a contractor the names of the parties to the contract and the name of the surety will be given. In those cases in which no assurance of installation and completion of offsite facilities is required the Director will so indicate on the form.

5. In those cases in which a cash deposit over and above the mortgage proceeds is required to assure availability of funds for completion of construction the Director will require that such deposit be made with the mortgagee and will so indicate on the form. If no deposit is required the Director will so indicate.

6. There will be attached to Form 2443-W copies of Forms 2264-W, 2283-W, and 432-W (as provided in II-12 (b) above).

7. Form 2443-W will be prepared in duplicate and distribution will be as follows:

- (a) Original copy to the Closing Attorney with attachments.
- (b) One copy to the Duplicate Docket.

7. *Closing under Form 2432-W*

It should be understood that there is a distinction between closing under a "Commitment for Insurance," Form 2432-W, under which advances of mortgage proceeds will be insured during the course of construction, and closing under a "Commitment to Insure Upon Completion," Form 2453-W. (For closing under Form 2453-W see X hereafter.) Article VI, Section 2, of the Regulations, prohibits the transfer or pledge of the mortgage, except with the prior written approval of the Commissioner, until full disbursement of the mortgage proceeds. The Director, therefore, should determine that the mortgagee at closing is able and prepared to disburse the full mortgage proceeds. No transfer or pledge prior to full disbursement of mortgage proceeds will be permitted by the Director without prior approval and receipt of instructions from the Assistant Commissioner, Rental Housing and Property Management. When the closing is in order the Director will communicate with the Closing Attorney to establish a date for closing. The Director should endeavor to communicate with the Closing Attorney efficiently in advance of the date desired (but at a time when drawings and specifications will be complete) so that the Closing Attorney may make necessary arrangements to be present or to arrange a date as close to the desired date as practicable and in order that the Closing Attorney may determine in advance of travel that closing documents are in order. Hereafter is given a description of the steps involved in closing under Form 2432-W, "Commitment for Insurance," with instructions as to the responsibility of the Director with respect thereto.

1. *Commencement of Construction.*—In cases involving closing under Form 432-W, "Commitment for Insurance," construction must not commence prior to formal closing and recordation of the insured mortgage. This prohibition is necessary in order to avoid exceptions to title at closing due to possibility of liens.

2. *Credit Instrument.*—The credit instrument will be on the FHA printed form. The form number varies with the jurisdiction. The acceptability and proper execution of the credit instrument is the responsibility of the Closing Attorney.

3. *Mortgage.*—The mortgage will be on the FHA printed form. The form number varies with the jurisdiction. The printed form of mortgage must not be altered, except that the mortgagee, if it desires, may include a provision for such

additional charges as may be agreed upon by the mortgagor and mortgagee in the event of prepayments in excess of 15 percent of the original principal amount of the mortgage in any one calendar year. The mortgage must not contain any additional charges for prepayments up to 15 percent of the original face amount of the mortgage in any one calendar year. This percentage has been fixed so as to permit the mortgagor to apply as a prepayment without additional charge, its surplus earnings at its election or in accordance with its certificate of incorporation, as the case may be. The acceptability and proper execution of the mortgage is the responsibility of the Closing Attorney.

4. *Title Evidence.*—Section VII of the Rules provides that in order for the mortgaged property to be eligible for mortgage insurance the Commissioner must determine that marketable title is vested in the mortgagor as of the date the mortgage is filed for record and further provides that the mortgagee must furnish a policy of title insurance in L. I. C. or A. T. A. standard mortgagee form and that in the event the mortgagee is unable to furnish such policy for reasons satisfactory to the Commissioner evidence of title may be furnished in the form of (a) abstract of title and legal opinion from an attorney experienced in the examination of titles, or (b) a Torrens certificate or (c) evidence of title conforming to the standards of a supervising branch of the Federal government or of any State or Territory. The type of title evidence to be accepted is the responsibility of the Director who in all cases will require a title policy unless other evidence of title has been approved by the Assistant Commissioner, Rental Housing and Property Management. The acceptability of the title company is the responsibility of the Director. The acceptability of title is the responsibility of the Closing Attorney and it is also the responsibility of the Closing Attorney to call to the attention of the Director any restrictions or covenants in the title. It is the responsibility of the Director to determine that the project will not violate any such restrictions or covenants.

5. *"Survey Instructions and Certificate"; Form 2457-W.*—One of the conditions of the commitment under Section 608 is that the Administration be furnished at closing with a lot-line survey of the property to be covered by the insured mortgage. Form 2457-W is the form of the Surveyor's Certificate which will be required to be submitted with surveys. The form is self-explanatory, and acceptability of the survey and certificate is the responsibility of the Closing Attorney.

6. *Eligible Mortgagors.*—(a) In cases where the insured mortgage is not in excess of \$200,000 the mortgagor may be an individual, partnership, or corporation. If a corporation, any form of charter is satisfactory if it permits the corporation to engage in the business of constructing, owning, and managing rental properties and meets the legal requirements of the State or Territory in which the property is located.

(b) Model Form of Certificate of Incorporation, Mimeograph No. 43650. This form must be followed in all cases where the insured mortgage is in excess of \$200,000.

In such cases the Administrative Rules for Section 608 require the mortgagor to be a private corporation in which the Commissioner has preferred stock or to be in the form of a Trust in which the Commissioner has a beneficial interest (except in case of a public housing authority). The Commissioner will not have a representative or representatives on the Board of Directors or other governing body except in case of default and then at the option of the Commissioner. The model form of certificate of incorporation is self-explanatory, being merely an ordinary certificate of incorporation based on Maryland law and including provisions regarding preferred stock rights, rental schedule, etc., necessary for compliance with the Rules. The model form may be altered only so as to comply with the corporate law of the jurisdiction in which the project is to be located or so as to be converted into a Trust Agreement. It should be noted that Article Six (d) of the Model Form of Certificate of Incorporation provides that the deposit to the replacement reserve fund shall commence on the date of the first payment to amortization of principal of the insured mortgage, unless otherwise agreed to by the holder of the preferred stock (the Commissioner), and requires that the deposit toward such fund be made monthly with the mortgagee or under the control of the mortgagee with a depository satisfactory to the mortgagee. It also contains a provision requiring approval in writing by the holders of the preferred stock of disbursements from such funds. Article Eight (a) (3) provides that a failure to establish and maintain such reserve fund shall be a default under the terms of the Certificate of Incorporation.

(c) Conformity of the certificate with the Administrative Rules and the commitment in either case is the responsibility of the Closing Attorney. At closing

the mortgagor must deliver one certified copy of its certificate and two conformed copies.

7. *Minutes of Meetings of Stockholders and Directors of Mortgagor.*—The mortgagor must submit at closing copies of minutes of all meetings of its corporate bodies, particularly of its organization meeting and the meeting authorizing the insured mortgage transaction, held prior to closing. It is the responsibility of the Closing Attorney to determine that the corporation has been legally and properly organized, that the insured mortgage transaction has been properly authorized, and that no action has been taken by any corporate body contrary to the certificate of incorporation and the rights of the Commissioner, or in conflict with any contractual documents. The Closing Attorney will require submission of at least one certified copy of minutes in addition to two conformed copies.

8. *Bylaws of Mortgagor Corporation.*—The form of the bylaws is not prescribed. The acceptability of the bylaws is the responsibility of the Closing Attorney who will determine that the bylaws contain no provisions in conflict with the certificate of incorporation, the rights of the Commissioner, or any closing instruments. At closing the Closing Attorney will require submission of at least one certified copy of the bylaws in addition to two conformed copies.

9. *Stock Subscription Agreements.*—The mortgagor must present at closing certified copies of stock subscription agreements. The nature and adequacy of the subscriptions is the responsibility of the Director. The legal adequacy of subscription agreements is the responsibility of the Closing Attorney.

10. *Evidence of Commissioner's Beneficial Interest in Mortgagor.*—The Commissioner's control over the mortgagor corporation will be exercised by preferred stock, or other special form of stock, or in the case of a Trust other evidence of beneficial interest. At closing the Closing Attorney will require delivery from the mortgagor of evidence of such interest and will deliver to the Director the appropriate document with his certificate that the form of the evidence conforms to the legal requirements of the state of incorporation. Upon receipt thereof the Director will require the proper representative of the mortgagor to execute "Public Voucher for Purchases and Services Other Than Personal", standard Form 1034, approved by the Comptroller General of the United States, May 26, 1938. The price to be paid for such stock or other beneficial interest shall be \$100. Following execution of the voucher by the mortgagor the Director will execute such voucher and will attach thereto the stock certificate or other evidence of interest, together with the Closing Attorney's certificate, and forward it to the Comptroller, Federal Housing Administration, Washington 25, D. C. The stock will be held in the custody of the Comptroller until redeemed.

11. *"Building Loan Agreement", Form 2441-W.*—This form is self-explanatory and sets forth the terms and conditions under which the mortgage proceeds will be advanced and insured during the course of construction. The acceptability and proper execution of the building loan agreement is the responsibility of the Closing Attorney. In closing there must be attached to the form, exhibits A and B, exhibit A being a legal description of the land to be covered by the insured mortgage and exhibit B being a copy of the Schedule of Payments and the Trade Payment Breakdown.

12. *"Construction Contract", Form 2442-W.*—This form is self-explanatory and the Closing Attorney is responsible for its acceptability and proper execution. In closing there must be attached to the form as an exhibit a copy of the Trade Payment Breakdown. Since procedure established under Section 608 is not readily adaptable to the construction of a project by a multiplicity of contractors who have direct contractual relations with the mortgagor, it is the responsibility of the Director to determine that the construction contract constitutes a general contract for all construction onsite. This may be accomplished by ascertaining that the drawings and specifications upon which the contract is made are complete for all onsite work and that the contract properly identifies such drawings and specifications by reference.

13. *Architect's Contract.*—There is no printed Federal Housing Administration form for the architect's contract. The Director, however, will require that the contract be in standard American Institute of Architects form. Directors are cautioned that in no case shall the architect's total cash fee be permitted to exceed the cash available for such fee or in any event exceed the total architect's

fee as revealed in the applicable Form 2264-W. In addition the Director will be guided by the following:

(a) The Director will require inclusion in the architect's contract provision for the payment of the architect's cash fee which will not be more liberal than the following:

"Cash payments hereunder shall be made as follows: \$ (insert 40 percent of the cash fee) upon execution of this agreement; and the balance of \$ (insert 60 percent of the cash fee) in instalments concurrently with payments to the contractor, the amount of each such instalment to be computed by multiplying the sum of \$ (insert 60 percent of the cash fee) by the percentage of in-place construction completed and approved by the Federal Housing Administration and deducting the total of all such instalments previously paid. No payment shall be due under this agreement prior to its approval by the Federal Housing Administration."

(b) The Director will require inclusion in the architect's contract of the following:

"Certificates of Payment shall be issued by the architect from time to time as required under the Construction Contract. Said certificate shall be in the form prescribed by the Federal Housing Commissioner and shall state, among other things, that it is based upon personal inspection of the project by the architect or his representative, who shall be another architect. The name of said representative shall be indicated if the inspection is not made by the architect."

(c) The Director will also require inclusion in the architect's contract of the following:

"Notwithstanding any other provision hereof, if the work for which the drawings and specifications are executed has not been completed and there is a default or foreclosure under the mortgage insured by the Federal Housing Commissioner on the property, the mortgagee or the Commissioner, or both, and their successors and assigns, are authorized to use said drawings and specifications to complete construction of said project without additional cost therefor."

(d) The Director will require that Conditions 2, 3, 4, 5, and the last paragraph of Condition 7 of the standard American Institute of Architects form be stricken from the contract.

14. *Assurance of Completion.*—Section V, Subsection 5 of the Rules provides that assurance of completion of the project shall be either (a) standard American Institute of Architects form of construction bond; or (b) "Contract Bond-Dual Oblige", FHA Form 2452; or (c) escrow of cash or securities. It should be noted that the bonds mentioned are not completion bonds. They are performance bonds and guarantee performance of the construction contract as written only to the extent of damages not in excess of the penal sum stated in the bonds. The bonds, however, carry a direct liability not only to the obligees named but also to contractors and materialmen subject to the priority of the named obligees. Copies of the American Institute of Architects bond may be obtained at most stationery stores or directly from the American Institute of Architects, 1741 New York Avenue NW., Washington, D. C. Immediately below is specified the form of assurance, depending upon the type of assurance given.

(a) *American Institute of Architects Bond.*—Such bond must be in a penal sum not less than 10 percent of the construction contract and must include the mortgagee as a co-obligee. The acceptability of the surety and amount of the bond is the responsibility of the Director. Any surety on the accredited list of the United States Treasury is acceptable. The legal adequacy and form of the bond is the responsibility of the Closing Attorney.

(b) *"Contract Bond—Dual Oblige", Form 2452.*—This bond must be in a penal sum not less than 10% of the construction contract. It should be noted that in the first paragraph of the form provision is made for the inclusion of the mortgagee as a co-obligee, and the mortgagee must be so included. The acceptability of the surety and amount of the bond is the responsibility of the Director. Any surety on the accredited list of the United States Treasury is acceptable. The legal adequacy and form of bond is the responsibility of the Closing Attorney. (NOTE—The above described Form 2452 may be used for either a Section 207 or insured mortgage.)

(c) *"Contract Bond—Escrow Agreement", Form 2450-W.*—In case the assurance of cash be in an escrow the form of an escrow deposit, such escrow must be 10 percent of the construction contract, and the or fully guaranteed as to principal

and interest by the United States of America. This agreement must be executed by the mortgagor, the mortgagee, and the contractor. Attention is called to the provision of paragraph 1 of the agreement wherein it is required that the funds deposited with the mortgagee or under the control of the mortgagee with a depository satisfactory to the mortgagee. Attention is also called to subparagraph 2 (b) of the form wherein it is required that where the insured mortgage in excess of \$200,000 there be retained in the escrow account for a period of at least one year subsequent to completion of the project an amount equal to not less than 2½ percent of the total amount of the construction contract as a guarantee against latent defects and faulty workmanship and material. The amount of the escrow is the responsibility of the Director. The acceptability, execution, and consummation of the escrow agreement is the responsibility of the Closing Attorney.

15. *Zoning Map and Zoning Ordinances.*—The mortgagor must submit at closing copies of zoning map and zoning ordinances or other appropriate evidence, if any, that zoning laws and regulations will not be violated by the proposed project. It is the duty of the Closing Attorney to call to the attention of the Director provisions of such maps, laws, or regulations which may involve a violation, and it is the duty of the Director to ascertain through the Chief Underwriter if no violations are involved.

16. *Building Permits.*—The mortgagor must submit at closing satisfactory evidence that the public authorities with jurisdiction have granted necessary building permits. The sufficiency of such permits is the responsibility of the Director. The legal adequacy of such permits is the responsibility of the Closing Attorney.

17. *Assurance of Installation and Completion of Offsite Facilities.*—Section V, subsection 3 of the Rules provides that the Commissioner may require an escrow deposit with the mortgagee or with an acceptable trustee or escrow agent designated by the mortgagee of such cash as may be necessary for the completion of offsite facilities, such as public utilities, streets, and any sidewalks, curbs, gutters, and landscaping offsite. In lieu of the requirement of a cash escrow, other forms of assurance of installation and completion of offsite facilities will be acceptable, in the discretion of the Director, as hereinafter mentioned. The type of the assurance is the responsibility of the Director. The legal adequacy of the assurance is the responsibility of the Closing Attorney. In establishing the type of assurance the Director will be guided by the following instructions:

(a) The Director may accept assurances from public authorities or public utility companies, as the case may be, that the required offsite facilities will be installed and completed at the time of completion of the project and without cost to the mortgagor. The terms of such assurances must be acceptable to the Director and must be in written form approved by the Closing Attorney.

(b) The Director may accept as assurance of completion and installation of offsite facilities, a contract between the principal sponsor or sponsors, collectively and individually, and a contractor satisfactory to the Director for installation and completion of offsite facilities without cost to the mortgagor. In such event the Director should be satisfied that the sponsor or sponsors are financially responsible financially to make to the contractor the payments called for by such contract. It should be noted that this arrangement contemplates that the mortgagor corporation, as distinguished from the sponsor or sponsors, will have no liability in connection with such contract. Such contract, if accepted, must be approved by the Closing Attorney and must be guaranteed by a surety bond satisfactory to the Director in the form of a performance bond written in standard American Institute of Architects form in an amount equal to the total cost of said offsite facilities as estimated by the Federal Housing Administration or as determined by the contract price, whichever is the greater; and such bond must contain the mortgagor and the Federal Housing Commissioner, his successors, and assigns, as co-obligees.

(c) In the event a cash escrow is required, the Director will require such escrow in an amount equal to the Federal Housing Administration's estimate of cost of such offsite facilities, and such escrow will be deposited with the mortgagee or under the control of the mortgagee with a depository satisfactory to the Director and mortgagee, and such escrow will be established under "Escrow Agreement for Offsite Facilities," Form 2446-W.

(d) Regardless of the form of assurance accepted the Director must determine that the assurance requires installation and completion of offsite facilities in accordance with satisfactory drawings and specifications, if necessary, and without cost to or assessment against the mortgagor. The Director must also

determine that the assurance provides for completion and installation of offsite facilities simultaneously with completion of improvements on the project site or within a reasonable time thereafter as determined by him. In all cases, prior to approval of any form of guarantee of installation and completion of offsite facilities, the Director will require submission of evidence satisfactory to him of the granting of satisfactory priority ratings for necessary material so long as any applicable priority system is effective. Attention of the Director is called to the fact that the construction contract and building loan agreement employed in operations under Section 608 provide that the 10% holdback will not be advanced until satisfactory completion of offsite facilities.

18. *Drawings and Specifications.*—~~Drawings and specifications at closing must~~ be complete in all respects. The master set of drawings and specifications, to be retained in the Insuring Office during the course of construction and one year thereafter, must be identified on the title sheet and initialed on the reverse side of each sheet by the proper representatives of the mortgagee, the mortgagor, the contractor, the architect, the bonding company, if any, and the Commissioner. The Director will require identification on behalf of the Commissioner by the Chief Architect, who is responsible to the Chief Underwriter for the adequacy and completeness of drawings and specifications including incorporation in the specifications of the standard form, current edition, of the American Institute of Architects "General Conditions of the Contract" and any "Supplemental General Conditions". The Director will ascertain that the latter two items have been included in the specifications.

19. *Working Capital Deposits.*—It is the responsibility of the Director to determine that the mortgagor deposits with the mortgagee the working capital required by Item 3 (b) (1) in the commitment.

20. *Funds Required to Complete the Project.*—It is the responsibility of the Director to determine that the mortgagor deposits with the mortgagee such sum as may be necessary over and above the amount of the insured mortgage to complete the project. This sum will be ascertained at closing by a revision of the "Financial Requirements for Closing" (Form No. 2283-W) to accord with the facts and figures shown on the executed contract documents.

21. *"Hazard Insurance Requirements", Form 2447-W.*—In Section III, Subsection 7, of the Rules provision is made that the mortgagee be advised at the time of endorsement of the credit instrument for insurance of the Commissioner's requirements for the types and amounts of hazard insurance to be maintained upon the project, and Article V, Paragraph 6, of the Regulations makes provision for maintenance of such insurance by the mortgagee in the event of failure of the mortgagor to maintain such insurance. It is, therefore, necessary that simultaneously with the initial endorsement of the credit instrument for mortgage insurance in cases in which mortgage proceeds are to be advanced during the course of construction the Commissioner notify the mortgagee of hazard insurance requirements. The Director, prior to the initial endorsement of the credit instrument will notify the mortgagee of hazard insurance requirements by completing Form 2447-W and delivering or forwarding it to the mortgagee in accordance with the following instructions:

(a) The Director will first ascertain from the Chief Underwriter whether any change in drawings and specifications or change in cost estimate has occurred subsequent to preparation of Form 2445-W "Hazard Insurance Schedule" (obtained from the Chief Underwriter) which will necessitate revision of such form. If such change has occurred the Director will obtain from the Chief Underwriter a revised Form 2445-W corrected to reflect such change.

(b) Having ascertained that the Form 2445-W in his possession is the final and correct copy the Director will prepare Form 2447-W in the following manner:

(1) The form will be prepared in quadruplicate. The date of the form, the name and address of the mortgagee, the project number, project name and project location will be inserted in the blank spaces provided at the head of the form. The date of the form must coincide with the date of initial endorsement of the credit instrument.

(2) In Paragraph 3 of the form in the blank space provided will be inserted the date of Form 2445-W as revealed in the lower left-hand corner of the applicable Form 2445-W.

(3) Following preparation of Form 2447-W as above provided the Director will staple to each copy of the form a copy of the applicable Form 2445-W. The Director will then execute all copies of Form 2447-W at the point provided for signature.

(4) Having prepared and executed Form 2447-W as above provided the Director will immediately upon initial endorsement of the credit instrument deliver or forward to the mortgagee the original and one duplicate copy, making certain that both copies of Form 2447-W have attached thereto copies of the applicable Form 2445-W.

(5) Executed copies of Form 2447-W with applicable Form 2445-W attached will be filed in the Original and Duplicate Dockets.

(c) Directors are cautioned that Form 2447-W and its attachments bear directly upon the contractual relationship between the Commissioner and the mortgagee and that accuracy and promptness in the execution of the procedure herein outlined is of primary importance. In all cases in which there is any revision of Form 2445-W or any correspondence in connection with either Form 2445-W or Form 2447-W a copy of such revision and correspondence will be filed in both the Original and Duplicate Dockets.

22. *"Mortgagee's Certificate," Form 2434-W.*—This certificate must be executed by the mortgagee and submitted at the time of closing. The form is self-explanatory and constitutes an acknowledgement by the mortgagee of its obligations under the Rules and Regulations and contract instruments. The acceptability and proper execution of Form 2434-W is the responsibility of the Closing Attorney.

23. *"Mortgagor's Certificate," Form 2433-W.*—This certificate is an acknowledgement by the mortgagor of its obligations under the Rules and Regulations and contract instruments and also constitutes an acknowledgement by the mortgagor of the contents of the mortgagee's certificate (Form 2434-W) and agreement by the mortgagor to be bound thereunder. This certificate is self-explanatory. The acceptability and proper execution of Form 2433-W is the responsibility of the Closing Attorney.

24. *Collateral Agreements.*—At closing the Director must ascertain that all conditions of Item 9 of the commitment have been complied with fully and executed duplicate copies of any documents in connection therewith must be submitted by the mortgagor at closing. The responsibility for compliance with the conditions of Item 9 is that of the Director. The legal adequacy of any documents in connection therewith is the responsibility of the Closing Attorney. In addition, if any collateral agreements are necessary with respect to any unusual conditions encountered at closing executed duplicate copies of any documents in connection therewith must be submitted by the mortgagor. The propriety of such documents is the responsibility of the Director. The legal adequacy of such documents is the responsibility of the Closing Attorney.

25. *Comprehensive Attorney's Opinion.*—The mortgagor's attorney must submit at closing to the Closing Attorney, addressed to the mortgagee and Federal Housing Administration, his comprehensive opinion as to the legality of the entire transaction and the legality and adequacy of contractual instruments. The nature and scope of this opinion is the responsibility of the Closing Attorney.

26. *Endorsement of the Credit Instrument and Collection of First Mortgage Insurance Premium.*—Consummation of the closing is the responsibility of the Closing Attorney, who following proper closing will certify to the Director that initial endorsement of the credit instrument is in order. Upon receipt of such certification the Director will make the initial endorsement on the credit instrument and simultaneously therewith require payment by the mortgagee of the first mortgage insurance premium.

27. *Copies of Instruments.*—Proper distribution of closing instruments and copies thereof to interested parties is the responsibility of the Closing Attorney. It is also the responsibility of the Closing Attorney immediately following closing to deliver to the Director copies of the closing instruments as immediately hereafter provided. All instruments mentioned in VII-1 hereafter, obtained at closing, will be delivered to the Director in the form specified in VII-1. The Closing Attorney will also deliver to the Director duplicates of all such instruments, excepting title evidence (which is generally furnished only with an original for the mortgagee and one duplicate original for the Federal Housing Administration). The Closing Attorney will also be responsible for delivery to the Director of the master set of drawings and specifications, one linen set, and two copies. (The master set is the contract document for the Insuring Office. One extra set is a working set for the Insuring Office. The linen set is for the Federal Housing Administration Inspector and the extra set is his working set.) The Director will find that preparation of the Washington Docket subsequent to completion of the project, as hereafter required, will be facilitated if the closing instruments submitted to the Director in form specified in VII-1 are

filed together in the Duplicate Docket with copies in the Washington Docket. (See VII hereafter.) The safe keeping of instruments following closing is the responsibility of the Director.

23. Revision of Instruments Prohibited Without Approval.—Subsequent to closing and initial endorsement of the credit instrument no revision of the terms or conditions of the insured mortgage will be permitted which will result in any change in its principal amount, interest rate, or amortisation provisions without prior approval of the Assistant Commissioner, Rental Housing and Property Management. Upon receipt of any such proposal which the Director feels merits consideration, the Director will forward such proposal to the Zone Commissioner with jurisdiction, together with his comments and recommendations, for transmittal to the Assistant Commissioner, Rental Housing and Property Management, for determination. A case which has been closed and in which the credit instrument has been initially endorsed (or in which a "Commitment to Insure Upon Completion" has been issued) under Section 606 represents a contract to which the Administration is a party and in which the Administration is interested in fixed legal obligations. Proposed revisions require examination from a legal point of view and involve decisions of general policy.

V. Construction period under Form 2432-W

During the construction period the Director will be guided by the following instructions:

1. Construction Fund of Mortgagor Held by Mortgagee.—In accordance with Item 3 (h) (2) of the commitment the mortgagor may have been required at closing to deposit with the mortgagee funds necessary to defray the cash cost of construction in excess of mortgage proceeds. Under the Mortgagee's Certificate (Form 2434-W the mortgagee certifies that it will advance to the mortgagor for construction purposes such funds prior to making any advance of mortgage proceeds. The Director, therefore, prior to approval of any request for insurance of any advance of mortgage proceeds will determine whether any construction funds other than mortgage proceeds remain in the hands of the mortgagee and will require exhaustion of such funds prior to approval for mortgage insurance of any advance of mortgage proceeds.

2. "Application for Insurance of Advance of Mortgage Proceeds," Form 2403-W.—This form is self-explanatory, constituting merely a request for insurance of an advance under the mortgage. The application must be submitted in quadruplicate by the mortgagee. In all instances the application must be completed and executed by the mortgagor, the mortgagee, and the architect; and when the advance requested includes a payment on account of construction cost, the form must also be executed by the contractor. Examination of the form will reveal provision for execution by all parties named. The Construction Contract requires a Survey showing the location on the site of the improvements constructed thereon. Such Survey should be supplied by the contractor and attached to each application for the insurance of advance of mortgage proceeds covering each unit or building, not theretofore located on the Survey. After all of the buildings to be constructed are located on the Survey, the Director may dispense with further Surveys up to but not including the final advance of mortgage proceeds. The Survey accompanying the request for final advance must show the exact location of buildings, water, sewer, gas, and electric mains, and of all easements for such utilities then existing. It should be prepared by a licensed surveyor who should certify that the project is installed and erected entirely upon the land covered by the mortgage and within the building restriction lines, if any, on said land, and does not overhang or encroach upon any easement or right-of-way of others. Upon receipt the application will be referred to the Chief Underwriter who will process the application in accordance with Underwriting procedure. Following processing the Chief Underwriter will complete the certificate of mortgage insurance on the form, for execution by the Director, and will submit it to the Director. The Director will execute Form 2403-W only following certification thereto by the Chief Underwriter at the point provided for such certification. Prior to such execution the Director must determine whether an advance is a final advance. If the advance constitutes a final advance the Director will be guided by instructions under VI hereafter. If the advance does not constitute a final advance the Director will execute the certificate of mortgage insurance on all copies of the form, if in his opinion the advance is in order, and distribute copies as follows:

- (a) Original to the Mortgagee.
- (b) One copy to the Washington Docket.
- (c) One copy to the Duplicate Docket.

copy to the Chief Underwriter for use of Mortgage Credit Section. *Test for Approval of Changes in the Drawings and Specifications.*—Requests for changes in the Drawings and Specifications must be in writing from the mortgagee and the mortgagor and shall be conditioned upon the approval of the Commissioner, which approval may be subject to such conditions and limitations as the Commissioner in his discretion may prescribe, it being understood that the Commissioner at all times has the right to require compliance with the original Drawings and Specifications. If the change or aggregate changes involve an increase in the cost of construction, the Director shall determine whether such increases aggregate 10 percent or more of the cost of the contract; and if so the approval of the bonding company to the change must be obtained, if the assurance of completion is in the form of a bond, the approval of the bonding company must be in written form. *Working Capital.*—The working capital deposit required at closing is primarily for the purpose of assuring monthly accruals with the mortgagee during the construction period for the second mortgage insurance premium, the real estate taxes due in the year following completion of construction, and the total for permanent hazard insurance for one year, in order that all such amounts may be paid by the mortgagee when due, all as required by the terms of the contract. The balance of such deposit is for the purpose of defraying expenses during the opening of the project for occupancy. The working capital under the sole control of the mortgagee and the disbursement of any part of the deposit is a matter for the discretion of the mortgagee. It is understood, however, that from time to time a mortgagee may refer to an Insuring Office a request from a mortgagor for release of a portion of such deposit or the mortgagor may refer such request to the Insuring Office. In case of such request by the Insuring Office from either a mortgagor or the Director will direct his reply to the mortgagee with his comments and recommendations (in case of request from a mortgagor, copy to mortgagor) and the Director will be guided by the

primary importance to the mortgagee and the Administration is the retention with the mortgagee of amounts sufficient to defray the cost of the second mortgage insurance premium, the real estate taxes due in the first year of the project to completion, and the permanent hazard insurance policies. It is remembered that no portion of the deposit is for the purpose of defraying the cost of construction or other expenses incidental to construction and that any balance in excess of amounts necessary for the required accruals is for the purpose of defraying opening expenses in the nature of renting and purchase of equipment and supplies necessary for the operation of the project. The Director should exercise care to avoid liquidating premature disbursement and unnecessary and extravagant expenses. In many instances, however, portions of a project may be completed prior to occupancy prior to completion of the entire project and a disbursement for reasonable opening expenses for such completed portions of a project would be permitted, but the Director should exercise sound discretion in granting approval or disapproval of opening expenses in connection with completed portions of a project in order that the deposit will not be exhausted prior to completion of the entire project. In making a recommendation to the mortgagee the Director should make it clear that his comments are recommendations only and that final approval or disapproval is a matter for the discretion of the mortgagee.

Funds To Cover Carrying Charges, Financing Expenses, etc.—The Building Loan Agreement in paragraph (7) provides for the advance of mortgage money to the mortgagee to the mortgagor to cover carrying charges, financing expenses, etc. The amounts allocated to each item should equal the funds allocated to said items in the Project Analysis (FHA Form No. 2264-W). The Director should not permit reallocation of these items without the consent of the mortgagee and nor should the mortgagee advance funds for any one item in excess of the amount allocated to such item in the Building Loan Agreement. It is understood that in connection with advances for these items the mortgagee may consult with the Insuring Office regarding expenses for a single item in the project or the allocation or in connection with a reallocation. The Director will not advance the mortgage money for any single item in excess of the amount allocated for such item unless there is a corresponding reduction in the amount of another item.

6. *Notification to Closing Attorney Regarding Chattels.*—One of the provisions of the Mortgagee's Certificate (Form 2434-W) is that upon completion of the project the mortgagee will require a chattel mortgage or similar instrument, if necessary, upon any property purchased with mortgage proceeds not clearly subject to the lien of the insured mortgage under the laws of the jurisdiction. It shall be the duty of the Closing Attorney at closing or shortly thereafter to request from counsel for the mortgagee, an opinion in writing as to whether or not such chattel mortgage is or is not necessary, which opinion he will forward to the Director for his information and for filing in the Washington Docket. If such chattel mortgage is required, the Director, when the project nears completion, will request the Closing Attorney to obtain from the mortgagee the required chattel mortgage or similar instrument. The request of the Director to the Closing Attorney will be accompanied by a list of the movable property, such as stoves, refrigerators, water heaters, and furniture and fixtures in the nature of venetian blinds, etc., purchased with mortgage proceeds, identifying property where possible with serial numbers. It will then be the duty of the Closing Attorney to obtain from the mortgagee's attorney copies of the suitable instrument in triplicate (including in the case of a chattel mortgage copy certified to by the mortgagee and revealing necessary recording data), retaining one for himself and forwarding duplicates (in case of a chattel mortgage, certified copy with duplicate copy) to the Director.

7. *Permission To Occupy.*—At closing the mortgagor in the Mortgagor's Certificate (Form 2433-W) certifies that it will not permit occupancy of any portion of the project prior to consent thereto by the Federal Housing Administration. Since portions of the project may be ready for occupancy prior to completion of the entire project it may be necessary that the mortgagor submit more than one request for approval of occupancy. In all cases of receipt of request for approval of occupancy the Director will, prior to granting such approval, require the mortgagor to submit satisfactory evidence that the public authorities with jurisdiction have granted such occupancy permits as may be necessary. Prior to granting of occupancy the Director will obtain the recommendation of the Chief Underwriter and in the event the Chief Underwriter has no objection to the proposed occupancy the Director may consent to such occupancy.

8. *Rental Schedule.*—So long as the maximum rents are regulated throughout the United States and its possessions by any agency of the United States Government expressly established for purposes of controlling maximum rents, other than the Federal Housing Commissioner, the approval of rent schedules by this Administration will not be required. Maximum rentals established by such agency or agencies of the United States will be accepted by this Administration as the approved rental schedule. Upon the expiration of the authority of any such agency of the United States to regulate and fix maximum rentals, and where the insured mortgage is in excess of \$200,000, the then existing schedule in force with respect to the project shall be the approved rental schedule. Upon the expiration of such authority and where the insured mortgage is in excess of \$200,000, provision with regard to the approval of the rental schedule is included in the Model Form of Certificate of Incorporation.

VI. Completion of construction, final advance, and final endorsement of credit instrument under form 2432-W

Upon the expiration of 30 days following completion of construction (the 30 days waiting period being provided for in the construction contract and building loan agreement in order to provide ample opportunity for the mortgagee to clear liens) final consummation of the mortgage insurance transaction and adjustments in connection therewith are in order. Upon determination that an advance of mortgage proceeds constitutes the final advance the Director will be guided by the following instructions:

1. *Hazard Insurance.*—Immediately prior to execution of Form 2403-W in the case of a final advance (see subparagraph 5 hereafter) the Director will ascertain from the Chief Underwriter whether during the course of construction any changes in drawings and specifications or any appreciable change in the cost of construction of the project necessitates a revision of Form 2445-W, prepared prior to construction of the project and forwarded to the mortgagee with Form 2447-W at the time of initial endorsement of the credit instrument. If any such change necessitates a revision of Form 2445-W the Director will obtain from the Chief Underwriter revised and corrected copies of this form, reflecting such changes. The Chief Underwriter of execution of Form 2403-W will forward duplicate copies of the revised Form 2445-W to the mortgagee with an appropriate letter notifying the mort-

gaggee to substitute the revised copies (identifying such revised form by date) for the previous Form 2445-W attached to Form 2447-W forwarded to the mortgagee at the time of initial endorsement of the credit instrument. If the Director ascertains from the Chief Underwriter that it is not necessary to revise the previous Form 2445-W no action on the part of the Director is required with respect to hazard insurance. In all cases of revision of Form 2445-W or correspondence in connection therewith, the Director will ascertain that duplicate copies of the revised form and correspondence in connection therewith are filed in the Washington and Duplicate docket.

2. *Incomplete Onsite Items.*—It is desirable prior to approval of a final advance of mortgage proceeds that all construction onsite be 100% complete at the time of receipt of Form 2403-W. Obviously, however, circumstances may make it desirable that approval of a final advance be given prior to 100% completion of onsite construction. However, such approval will be given only in cases in which minor items of onsite construction are incomplete with the escrowing of funds to complete such minor items, as provided for in the Certificate of Mortgage Insurance on Form 2403-W and in footnote on Form 2023-W. For the latter form see subparagraph 6 hereafter. In addition, approval of a final advance of mortgage proceeds under such circumstances will be given only in those cases in which onsite construction is substantially complete, including the proper installation and connection of all utilities, and is safe for occupancy and in which the Chief Underwriter recommends the escrowing of funds to complete minor items because immediate completion is inadvisable or impossible, due to weather or other conditions beyond control, and when the aggregate estimated cost of completing such items does not exceed 1% of the principal amount of the mortgage. With respect to all such items, except landscaping which cannot be completed because of the season, the amount held in escrow for completion must equal twice the estimated cost of completion. In the case of landscaping, as mentioned, the amount held in escrow must equal not less than the Chief Underwriter's estimate of the cost of completion. Such escrow will be held by the mortgagee or under the control of the mortgagee in a satisfactory depository in accordance with the terms of "Escrow Deposit Agreement," Form 2456-W, and the Director will make certain that the items to be completed are properly identified by attachment to Form 2403-W. (See subparagraphs 5 and 6 hereafter.)

3. *Incomplete Offsite Facilities.*—When a request for approval of a final advance is received in a case in which offsite facilities are incomplete a distinction must be made between those cases in which the assurance of installation and completion of offsite facilities is in the form of a cash escrow and those cases in which such assurance is in the form of a bonded contract or is from a public authority or public utility company, and in approving or disapproving the final advance the Director will be guided by the following instructions:

(a) *Cash Escrow.*—When the completion and installation of offsite facilities is assured by a cash escrow, and all offsite sewer, water, electrical, and gas facilities are completely installed and connected, and other offsite facilities such as streets, walks, curbs, and gutters are incomplete but safe and adequate facilities for ingress and egress are provided, approval of the final advance of mortgage money may be given, but the Director will require that the escrow agreement remain in force. The Director, however, in such cases will diligently pursue the completion of offsite facilities as assured by the escrow.

(b) *Other Forms of Assurance.*—In those cases in which the assurance of installation and completion of offsite facilities is in the form of a bonded contract or from a public authority or public utility company, the final advance of mortgage proceeds can not be approved. Instead, the Director will invoke the provisions of the building loan agreement and construction contract wherein it is provided that the 10-percent holdback will be retained until 100-percent completion of offsite facilities. However, in the event offsite utilities are completely installed and connected and ingress and egress is provided, as mentioned in (a) above, the request for the final advance may be treated as an ordinary application for advance of mortgage proceeds and may be approved in an amount which when added to previous advances of mortgage proceeds will equal 90 percent of the total advances to which the mortgagor will be entitled at 100-percent completion. In such cases the Form 2403-W will not be treated as approval of a final advance, nor will the submission of Form 2023-W be in order. Instead, following 100-percent completion of all offsite facilities the Director will require submission of a new Form 2403-W for approval of the final advance and subsequent submission of Form 2023-W. In all such cases

of incomplete offsite facilities it is the responsibility of the Director to endeavor to obtain completion at the earliest possible time. In any case in which the Director feels that the retention of the entire 10-percent holdback is disproportionate to the cost of the offsite facilities to be completed, he may forward his recommendations for adjustment to the Assistant Commissioner, Rental Housing and Property Management.

4. *Chattel Mortgage or Attorney's Certificate*.—Prior to approval of a final advance of mortgage proceeds the Director will ascertain that he has in his possession a chattel mortgage or certificate of mortgagee's attorney in accordance with V-6 above.

5. *"Application for Insurance of Advance of Mortgage Proceeds", Form 2403-W*.—This is the same form employed during the course of construction for the advance of mortgage proceeds. It will be noted that the Certificate of Mortgage Insurance on this form makes provision for its use in connection with the final advance. When the final advance is in order the mortgagee, the mortgagor, the contractor, and architect, will execute the completed form, and the form will be submitted by the mortgagee in quadruplicate. Upon receipt, all copies of the form will be routed to the Chief Underwriter, processed, and submitted to the Director, all as provided in V-2 above. Upon ascertaining that the advance constitutes a final advance of mortgage proceeds the Director will determine whether (a) any items of onsite construction are incomplete, (b) any offsite facilities are incomplete, (c) whether revisions are required in connection with hazard insurance and (d) whether he has necessary chattel mortgage or certificate of mortgagee's attorney, all as hereinabove required, and the Director will be guided accordingly. If no items of onsite construction are incomplete there will be typed into the Certificate of Mortgage Insurance on Form 2403-W in the space provided for the amount of the escrow deposit the word "None". If items of onsite construction are incomplete and an escrow deposit (in accordance with subparagraph 2 above) is in order, there will be attached to Form 2403-W an itemized list of incomplete items and there will be typed into the Certificate of Mortgage Insurance on Form 2403-W in the space provided the amount of the escrow deposit, required for completion of incomplete items. Form 2403-W contemplates that in connection with the final advance it will be executed by the Director prior to receipt of the original credit instrument for endorsement. Therefore, following execution of Form 2403-W in connection with a final advance the Director will forward the executed original of such form to the mortgagee, with necessary attachments listing incomplete items, if any, and forward executed copies to both the Washington and Duplicate Dockets, and one copy to the Chief Underwriter for use of the Mortgage Credit Section. (It should be noted that it is then the responsibility of the mortgagee to submit, in accordance with the Certificate of Mortgage Insurance, a completed Form 2023-W, "Request for Final Endorsement of the Credit Instrument", together with the credit instrument and any necessary escrow deposit agreement. (See subparagraph 6 hereafter.)) The Certificate of Mortgage Insurance on Form 2403-W is so qualified as to require this action of the mortgagee but it is desirable that the Director in forwarding the completed form to the mortgagee call to the mortgagee's attention such additional submissions as are required of the mortgagee. Forward to the Mortgagee copies of FHA Forms 2023-W and 2456-W when necessary.

6. *"Application for Final Endorsement of Credit Instrument", Form 2023-W*.—This form, completed and executed by the mortgagee and mortgagor, must be submitted by the mortgagee in duplicate, together with the original credit instrument, and duplicated executed copies of "Escrow Deposit Agreement", Form 2456-W, if required, subsequent to receipt by the mortgagee of approval of a final advance of mortgage proceeds on Form 2403-W. The receipt of Form 2023-W and final endorsement of the credit instrument will be in order at such time as the Director is prepared to endorse the credit instrument finally in an amount equal to the full amount of all advances to which the mortgagor will be entitled. If an escrow is required for the completion of incomplete items, the Director will require that duplicate executed copies of such escrow be submitted on Form 2456-W. The establishment of the time required for completion of incomplete items and the completion and consummation of such escrow agreement at the time of final endorsement of the credit instrument is the responsibility of the Director, who may call upon the Closing Attorney for advice. Following receipt of properly executed Form 2023-W (and Form 2456-W, if required in connection therewith) final endorsement of the credit instrument will be in order. The date of final endorsement of the credit instrument will be the date

the Director or his agent affixes his signature to the credit instrument. The original of Form 2023-W is to be filed in the Duplicate docket and one copy in the Washington docket. Executed copies of Form 2456-W, if any, will be filed in the Washington and Duplicate dockets.

7. *Cash Working Capital.*—Upon final endorsement of the credit instrument it will be in order for the Director to recommend, if requested, a disbursement to the mortgagor of the entire balance of working capital remaining in the hands of the mortgagee not allocated to accruals under the mortgage.

8. *Assurance of Completion.*—Upon final endorsement of the credit instrument consideration must be given to the type of assurance of completion of construction which was provided at closing. The general conditions of the construction contract, contain a provision guaranteeing against latent defects and faulty workmanship and material for one year from date of completion. The date of completion for this purpose is determined by the date upon which all items of construction called for in the drawings and specifications are completed and the mortgagor makes final payment to the contractor. Defects in material and faulty workmanship discovered within one year following such date are covered by the contractor's guarantee. It is necessary, therefore, that no representative of the Federal Housing Administration take any action which might jeopardize this guarantee and the Director will be guided by the following instructions:

(a) In cases where the insured mortgage is in excess of \$200,000 and when the assurance of completion is in escrow of cash or securities the Director will agree following final endorsement of the credit instrument to a release of all escrow funds except an amount equal of 2½ percent of the total amount of the construction contract, the retained percentage being provided for in the escrow agreement and being for the purpose of guaranteeing against latent defects and faulty workmanship and material discovered within the one-year guarantee period.

In cases where the insured mortgage is not in excess of \$200,000, the entire escrow deposit will be returned to the depositor upon completion.

(b) In cases in which the construction contract has been guaranteed by a performance bond no action is required. It is not unusual, however, for a surety to request from the Administration a statement as to whether a particular project has been completed and accepted, and in some instances sureties request a release of obligations evidenced by their bonds. These requests are usually in the form of letters asking for information as to (1) cash payments to the contractor to date, (2) earned retainage withheld to date, (3) whether the work has been completed and accepted, (4) what claims, assignments or liens have been filed, (5) the period of maintenance required after completion, and (6) the final contract price. Since the Administration is not a signatory to the contract guaranteed by the bond, Directors must exercise caution in replying to such requests and should refrain from indicating acceptability or nonacceptability of construction or compliance with drawings and specifications. Under no circumstances should the Administration consent to release of any surety. All bonds required by the Administration contain automatic expirations. Therefore, upon receipt of requests of this nature where there is no escrow for incomplete items, the Director will merely notify the surety of the date upon which the Administration approved for mortgage insurance the final disbursement of the proceeds of the mortgage. Where there is such an escrow the Director will advise the surety of the date upon which the entire escrow was released. In the event final advance of mortgage proceeds has not been approved or the escrow not released, an answer to that effect will suffice.

VII. *Disposition of dockets under form 2432-W*

Immediately upon final endorsement of credit instrument (regardless of whether any funds are escrowed) the Director will require the preparation of a permanent binder to be known as the Washington Docket. The material mentioned in subparagraph 1 hereafter will be obtained from the Washington and Duplicate Dockets, as may be necessary, and the material not to be included in the Washington Docket or otherwise transmitted to Washington will be retained in the Insuring Office as provided in subparagraph 4 hereafter. (Each Section 608 case requires individual preparation of the amortization schedule by the Comptroller's office and also requires calculations in adjusting the mortgage insurance premiums. The Comptroller's office is unable to prepare the amortization schedule or calculate the adjusted premium prior to receipt of the Washington Docket. Delays in handling these matters result in misunderstanding on the part of the mortgagees. It is, therefore, essential that the preparation

and forwarding of the Washington Docket as hereinafter required be expedited.)

1. *Contents of the Washington Docket.*—The following papers will be filed on each, in the order indicated, the application on the bottom.

Application Section:

- Application for Mortgage Insurance, Form 2013-W. (O)
- Mortgagor's Certification of Occupancy Preference, Form 2013e. (O)
- Project Income Analysis and Appraisal, Form 2204-W. (C)
- Commitment for Insurance, Form 2432-W. (O)
- Assignment of Commitment and Acceptance, if any. (O)
- Applications for Insurance of Advance of Mortgage Proceeds, Form 2403-W. (EO)
- Application for Final Endorsement of Credit Instrument, Form 2023-W. (O)

Contract Section:

- Building Loan Agreement, Form 2441-W. (EO)
- Architect's Agreement. (EO)
- Building Permits. (C)
- Construction Contract, Form 2442-W. (EC)
- Bond (A. I. A. form of FHA Form 2452) (DO)
- or
- Completion Assurance Agreement, Form 2450-W. (EO)
- Escrow Agreement for Offsite Facilities, Form 2446-W, if any, (EO)
- or
- Assurance from Public Authorities or Public Utility Companies for Installation of Offsite Facilities, if any, (EO)
- or
- Contract for Installation of Offsite Facilities, (EO)
- and
- Bond for such contract, if any. (DO)
- Collateral Agreement, if any. (EC)
- Escrow Deposit Agreement, Form 2456-W, if any. (EO)

Title Section:

- Title Evidence, as accepted at closing. (DO)
- Certified Survey of Property, (Survey with Form 2457-W attached.) (O)
- Zoning Ordinances, if any. (C)

Mortgage Section:

- Mortgage Bond or Note. (FHA Form.) (The above item must be a conformed copy as finally endorsed.) (C)
- Mortgage or Deed of Trust. (FHA Form.) (C)
- Mortgagee's Certificate, Form 2434-W. (O)
- Mortgagor's Certificate, Form 2433-W. (O)
- Hazard Insurance Schedule, Form 2445-W (with any correspondence regarding same). (C)
- Hazard Insurance Requirements, Form 2447-W. (EC)
- Chattel Mortgage (CC)
- or
- Certificate of Mortgagee's Attorney. (O)
- Comprehensive Attorney's Opinion. (O)

Corporation Section:

- Certificate of Incorporation of Mortgagor. (CC)
- Bylaws of Mortgagor Corporation. (CC)
- Stock Subscription Agreements. (CC)
- Minutes of Meetings, Organization, etc., of Directors and Shareholders of Mortgagor. (CC)

(C=Copy. CC=Certified Copy. DO=Duplicate Original. EC=Executed Copy. O=Original.)

(a) Following assembly of material in the Washington Docket as above provided and immediately prior to transmission of the Docket as required in subparagraph 3 hereafter there will be inserted (original and duplicate executed copies of) "Requisition for Amortization Schedule", Form 2409-W, the data in such form to be obtained directly from the copy of the note and mortgage. Form 2409-W is for the use of the Comptroller upon receipt of the Washington Docket.

2. *Material not included in the Washington Docket.*—It will be noted that in subparagraph 1 above no reference has been made to (a) master set of drawing and specifications, (b) preferred stock certificate or other evidence of beneficial interest. These documents are disposed of as follows:

(a) Master Set of Drawings and Specifications and copies of all approved changes: To be retained in the Insuring Office until expiration of the one year guarantee period under the construction contract, when they will be finally viewed for completeness and certification as required in transmittal letter No. 102400 after which each set of plans, specifications and change orders is to be tightly rolled as a unit with the plans on the outside and securely tied with twine (Heavy India Finished—21 T 648) at each end; the gummed label No. 1386 must be prepared by indicating the year completed, Section of the Act and the FHA Project serial number and affixed to the end of the roll. The project name and serial number shall also be written or printed in crayon on the outside of the roll. Transmittal Letter No. 102400 is to be signed in duplicate by the Director and enclosed in an envelope which will be securely fastened to the outside of the roll with Scotch tape and thereafter forwarded to the Director of Administrative Services Division, Attention: Files and Records Unit, 1001 Vermont Avenue NW., Washington 25, D. C.

(b) Preferred stock certificate or other evidence of beneficial interest: This will have been previously forwarded with executed voucher in accordance with 7-10 above.

3. *Mailing of Washington Docket.*—Immediately following preparation of the Washington Docket it will be forwarded to the Closing Attorney with jurisdiction by registered mail, if mailed). It will be the duty of the Closing Attorney to check the Docket to determine that it contains the instruments to be included therein in accordance with subparagraph 1 above and to determine that such instruments are in proper legal form. Upon determination that the Docket contains all required instruments and that said instruments are in proper form the Closing Attorney will insert in the Docket his certificate stating that he has checked the Docket and that it complies with that paragraph. One copy of each certificate will be forwarded immediately to the Chief Counsel, Rental Housing, Washington. The Attorney will then forward the Docket by registered mail to the Comptroller, Federal Housing Administration, Washington 25, D. C., Attention: Project Audit Section, with a suitable letter of transmittal, one copy of which letter shall be sent to the Insuring Office from which the Docket was received and one copy to the Assistant Commissioner, Rental Housing and Property Management. The Comptroller's office will be responsible for recordation and safekeeping.

4. *Material to be Retained in the Insuring Office.*—All remaining original and duplicate material, underwriting and processing forms, correspondence, etc., remaining in the Insuring Office following preparation of the Washington Docket will be retained in the Insuring Office in a binder to be known as the Field Office Docket. The contents of the Field Office Docket are to remain in chronological order. Correspondence may be fastened to the left hand side of the binder. When a project is of such size as to make arrangement in one binder bulky, auxiliary binders will be made but in the event of use of auxiliary binders, the binders will be designated No. 1, No. 2, No. 3, etc., and the No. 1 binder should indicate the total number of binders. None of these binders or their contents may be destroyed prior to termination of mortgage insurance, nor recommendation be made to the National Archives for their destruction without prior approval having been obtained from the Assistant Commissioner, Rental Housing and Property Management.

COMMITMENT TO INSURE UPON COMPLETION

VIII. *Issuance of a "Commitment to Insure Upon Completion", Form 2453-W*

Involves no change whatever in procedure in receiving an application for insurance as provided for in Part 1 above, including collection of a commitment fee. Where the Application for Mortgage Insurance, Form 2013-W, indicates that a Commitment to Insure Upon Completion is desired, Form 2453-W shall be issued and distributed as hereinafter provided.

1. *Commencement of Construction.*—In cases involving "Commitment to Insure Upon Completion" construction must not commence until execution by all parties of Form 2453-W. The Director shall make immediate arrangement for inspection of construction of the project.

2. *Drawings and Specifications.*—Under no circumstances will a commitment be issued on Form 2453-W until the Director has received for retention in his office a master set of the applicable drawings and specifications, complete in all respects for all onsite construction, and one duplicate set and one linen set of such drawings and specifications as required in Paragraph 1 (a) of Form

2453-W. The master set of such drawings and specifications must be identified on each page thereof and initialed on the reverse side of each page by authorized representatives of the mortgagor, the mortgagee, the architect, and the Commissioner. (Identification for the Commissioner will be evidenced by signature of the Chief Architect.) Prior to acceptance of such drawings and specifications as complete the Director will determine that the specifications contain the "American Institute of Architects General Conditions of the Contract" and required "Supplemental General Conditions". The Director must also determine through the Chief Underwriter that construction of the project will involve no violations of the applicable zoning laws and regulations.

3. *Title*.—The Administration will not approve title upon issuance of Form 2453-W. Paragraph 3 of the Form requires clear title at the time of endorsement of the credit instrument for mortgage insurance, and such endorsement will not take place until the project is completed and the entire mortgage money advanced. If, however, the mortgagee requests assurances with respect to any questions arising in connection with title, the mortgagee must submit to the Director a preliminary title report showing all exceptions then existing. The Director will forward such preliminary report to the Closing Attorney with jurisdiction, who will notify the Director of the exceptions which must be removed before the basic title will be considered eligible for mortgage insurance, and the Director in turn will so notify the mortgagee.

4. *"Commitment to Insure Upon Completion"*, Form 2453-W.—This form is largely self-explanatory, and the Director will be guided by the following instructions:

(a) The name and address of the mortgagee, the project number, and the name and address of the mortgagor will be inserted at the head of the form in spaces provided.

(b) In the first paragraph of the form will be inserted the name of the proposed mortgagor, the amount of the mortgage to be insured, the location of the project, the name of the architect, and the exact title of drawings and specifications for onsite improvements as revealed by the master set of such drawings and specifications.

(c) In Condition 2 there will be inserted the inspection fee which will be an amount equal to one-half of 1% of the face amount of the mortgage to be insured.

(d) In Condition 4 in the spaces provided will be inserted:

(1) The interest rate as revealed in Item 2 (b) of the applicable Form 2438-W.

(2) The number of monthly payments to principal and interest and the amount of the level annuity or declining annuity payment, as the case requires. (See II-3-c-above.)

(e) In Condition 6, where the insured mortgage is in excess of \$200,000, in the space provided, will be inserted the total annual requirement for replacements as determined from Page 1 of Form 2264-W.

(f) In Condition 14 will be inserted the number of days subsequent to issuance of the commitment in which construction must commence and the number of months in which the commitment will expire. In cases of this nature construction should commence in not more than 15 days after the date of the commitment, but in no event shall such period exceed 30 days. The number of months in which the commitment will expire is a matter for determination by the Director who will determine the period by estimating the length of time required for completion of construction and for expiration of the applicable lien period following construction. In cases involving mortgages not in excess of \$200,000 the expiration period of the commitment shall not exceed 11 months and in cases involving mortgages in excess of \$200,000 such period shall not exceed 17 months.

Within these limitations the Director will bear in mind the recommendation of the Chief Underwriter and will endeavor to establish a date which will give the mortgagor sufficient time to complete the project and obtain occupancy.

(g) "Special Conditions" Subsection (a) will be completed as outlined in Part II-10 above. Under "Special Conditions" (as subsections (b), (c), (d), etc.) will be inserted as conditions of the commitment any specific conditions, such as planning requirements and offsite improvements and other requirements not covered by the commitment, as revealed in the applicable Forms 2438-W and 2411-W or as recommended by the Chief Underwriter, or as determined by the Director. In the case of requirements for offsite facilities the requirements should be in sufficient detail to avoid any misunderstanding as to their exact nature. In the event that drawings and specifications are necessary for offsite

its they should be properly identified under "Specific Conditions." The space provided on the commitment for these conditions is not here will be attached and stapled to the commitment as "Exhibit B" one of all requirements.

There will be attached and stapled to the commitment in all cases, to be is "Exhibit A," a survey or plat and legal description of the property ded under the insured mortgage.

On preparation of the commitment in accordance with the above the will execute it at the point provided for his signature and will date the it as of the date of actual issuance.

At the time of issuance of the commitment the terms thereof must have witnessed and agreed to by the mortgagor and mortgagee, such acknowledgment and agreement to be evidenced by appropriate signatures of their representatives at the point provided for such signatures on the last e form. Prior to his signing the commitment the Director may, if mail five copies of the commitment to the mortgagee for execution rtgagee and mortgagor. Retain one copy for the office files. The on proper execution will return all copies for the Director's signa-tribution will then be as outlined below.

Form 2453-W will be prepared in sextuple and will be distributed as

Original and one copy to Mortgagee, together with copy of Form V and Form 2419-W.

One copy to the Closing Attorney, together with copy of Form 2264-W.

One copy to the Assistant Commissioner, Rental Housing and Property Management, together with copy of Form 2264-W and Form 2419-W.

One copy to Washington Docket. (Executed by the Mortgagor and agee.)

One copy to Duplicate Docket. (Executed by the Mortgagor and agee.)

Re: FHA Form 2419-W will be forwarded in accordance with (1) and ove only when the mortgage is in excess of \$200,000.

Revision of Form 2453-W without prior approval.—Subsequent to issuance of Form 2453-W, and execution thereof by the mortgagor and mortgagee, of the terms and conditions of the commitment that will result in e in the original amount of the mortgage to be insured will be per- without prior approval of the Assistant Commissioner, Rental Housing ty Management.

Extension of expiration date on Form 2453-W without prior approval.— nent to Insure Upon Completion represents a firm contract to which istration is a party and in which the Administration is interested in obligations. Therefore, if during the course of construction it be- ssary to extend the expiration date of the commitment the request tgagee for such extension, along with the comments and recommenda- e Director, shall be forwarded to the Zone Commissioner with juris- transmittal to the Assistant Commissioner, Rental Housing and Prop- cement, for decision.

Construction period under Form 2453-W

Construction must not commence in cases involving a "Commitment to Insure completion" prior to issuance of Form 2453-W. Construction will start within the time limit provided for in the Commitment. During the onstruction no advance of mortgage proceeds will be insured by FHA. changes may be involved, in accordance with Paragraph 1 (b) of Form e mortgagor may request permission for occupancy, and the mortgage ivered of permanent hazard insurance requirements. With respect to ers the Director will be guided by the following:

1(a).—Procedure for changes will be the same as provided for in V-3 ept that the Director will have no responsibility to determine that available for increased cost or with respect to verifying the bearing f changes. Obviously, however, if the Director feels that a change in an increase in cost which the mortgagee may not be able to defray call the matter to the attention of the mortgagee, since at the time inal endorsement of the credit instrument the mortgagee must not audize any obligations in connection with construction other than d mortgage and the mortgagee is interested in having the property as.

3. *Rental Schedule.*—So long as the maximum rents are regulated throughout the United States and its possessions by any agency of the United States Government expressly established for purposes of controlling maximum rents other than the Federal Housing Commissioner, the approval of rent schedules by this Administration will not be required. Maximum rentals established by such agency or agencies of the United States will be accepted by this Administration as the approved rental schedule. Upon the expiration of the authority of any such agency of the United States to regulate and fix maximum rentals, and where the insured mortgage is in excess of \$200,000, the then existing schedule in force with respect to the project shall be the approved rental schedule. Upon the expiration of such authority and where the insured mortgage is in excess of \$200,000, provision with regard to the approval of the rental schedule is included in the Model Form of Certificate of Incorporation.

(b) The name and address of the contractor, the project number, project ~~and~~ location will be requested at the top of the form in the spaces provided.

applicable Form 2447-W, as required, and the date of such form.

4. Following preparation of Form 244-W, as above provided, there will be stapled to each copy of the Form 244-W, if the applicable Form 244-W is being used, the "exemption" Form 244-W, as the space is provided for signature and forward the original and one copy of each with attachments, to the IRS. The remaining copies exempted will be filed one each in the Washington and Duplicate folders. The exemption form will be in correspondence with Forms 244-W and 244-W. The IRS will make certain that copies of correspondence are reviewed and filed in the Washington and Duplicate folders.

A. C.

The use of Form 2121-W is optional. While it makes the necessary for participation by multiple owners, it is not required. Single owners may use the form for construction contracts will be paid in whole or in part by multiple owners. In most cases it will be necessary to use Form 2121-W at the time of the closing of the real instrument for a transfer. After approximately thirty days to the time of the closing of the instrument, the Director will furnish the Closing Affidavit to the Office of Public Access, Form No. 2121-W. Information for the Closing Affidavit may be obtained from Form 2121-W. Completely filled Closing Affidavits will be made available to the Director and the Director will instruct the assessor to make the necessary changes to the file out and send them to the assessor. The assessor will then send them to the Director. When these are in the file, the assessor will send the Closing Affidavit and one copy of the the Director with a certification of the assessor. The instrument may be used

insurance upon the execution of the closing papers in the form approved by him. In the event some unforeseen legal difficulty should arise at the time of the endorsement of the credit instrument the Director may telephone the Closing Attorney and if the question cannot be disposed of by telephone, he should adjourn the closing until the attorney can be present and resolve the difficulty. In unusual cases where the Director has reason to believe that complications may develop with respect to the closing, he should request the Closing Attorney to be personally present at the closing giving him ample notice to make arrangements to be present. Hereafter is a description of the steps involved in closing with instructions as to the responsibility of the Director with respect thereto.

1. *Request for Endorsement of Credit Instrument—Certificate of Mortgagee and Mortgagor, Form 2455-W.*—Upon completion of the project and at such time, within the term of the commitment, as the mortgagee desires, endorsement of the credit instrument for mortgage insurance, Form 2455-W, must be executed by the mortgagor, the mortgagee, and the contractor, and must be submitted by the mortgagee in duplicate accompanied by the original credit instrument. The form is largely self-explanatory. However, upon receipt of an executed Form 2455-W the Director must determine whether closing is in order, and the Director will be guided by the instructions set forth hereafter.

2. *Hazard Insurance Requirements.*—The Director will make certain that hazard insurance requirements have been forwarded the mortgagee in accordance with IX-4 above. If such notice of requirements has not been given the Director will immediately prepare Form 2454-W in accordance with IX-4 and will notify the mortgagee of such requirements in advance of initial-final endorsement of the credit instrument.

3. *Adjustment in Mortgage Amount.*—(a) Cases in which a mortgage in form required by the Federal Housing Administration for a principal sum equal to the amount of the commitment has been placed of record prior to closing: These cases may involve an increase or decrease in the amount of the mortgage to be insured. If an increase, the mortgage and credit instrument will have to be modified so as to coincide with the exact amount (in multiples of \$100) insured. If it appears that an increase will be necessary, the matter should be referred by the Director to the Assistant Commissioner, Rental Housing and Property Management, so he can see that the proper legal steps are taken. A minor decrease in the amount to be insured will be reflected in the initial-final endorsement for mortgage insurance and the exact amount of mortgage principal advanced and insured will appear in the endorsement on the credit instrument. No change will be made in the terms or conditions of the mortgage instruments. If it appears that a major decrease of over \$1,000 will be necessary, a modification of the mortgage may be in order and the matter should be referred with recommendations to the Assistant Commissioner, Rental Housing and Property Management. In all cases the amortization schedule prepared by the Comptroller will reflect the transaction as finally consummated.

(b) *Cases in which the project is completed and a mortgage in form satisfactory to the Federal Housing Administration is to be placed of record at closing:* In these cases, since a mortgage in form satisfactory to the Federal Housing Administration is yet to be placed of record, the stated principal amount of the mortgage will be made to coincide exactly with the amount which is to be approved for mortgage insurance and the required payments to principal and interest will be adjusted accordingly.

4. *Guarantee against latent defects and faulty workmanship.*—Form 2453-W, Paragraph 13, provides that where the insured mortgage is in excess of \$200,000, prior to endorsement of the credit instrument the mortgagor will furnish satisfactory evidence that the work of the contractor is covered by a guarantee, running for a period of at least one year, against latent defects and faulty workmanship and defective materials, which guarantee will be assured by a surety bond, or retention in escrow of mortgage funds in an amount equal to 2½ percent of the face amount of the mortgage. It is the duty of the Director prior to endorsement of the credit instrument to determine that such assistance is provided, and the Director will be guided by the following instructions:

(a) In case a surety bond is provided such bond must be either (1) in American Institute of Architects standard construction form or (2) on Federal Housing Administration Form 2452, or (3) a special bond, the legal adequacy of which is the responsibility of the Closing Attorney, guaranteeing specifically against latent defects, faulty workmanship and material. All bonds must be for an amount not less than 10 percent of the construction cost, as estimated by the Federal Housing Administration. All bonds must include the mortgagee as an

obligee and in addition must be assignable to the Commissioner, and the mortgagor's interest in such bond must be assigned to the Commissioner prior to endorsement of the credit instrument. The surety and amount of the bond is the responsibility of the Director and the form and legal adequacy of the bond is the responsibility of the Closing Attorney.

(b) In the event no bond is provided the Director will require that 2½ percent of the face amount of the mortgage be retained in escrow by the mortgagee for a period of one year to assure correction of latent defects, faulty material and workmanship. No Federal Housing Administration form of escrow is required in this instance. Form 2455-W, Paragraph 4 (b), contains a representation from the mortgagee that it has retained this 2½ percent in such cases, and the responsibility for the proper handling of such escrow is that of the mortgagee.

5. *Title Evidence.*—Title evidence to be provided by the mortgagee at closing under Form 2453-W will be the same as provided for in IV-4 above, such evidence to be continued to the date of endorsement of the credit instrument or recordation of the mortgage, whichever is later, and the Director and Closing Attorney will be guided accordingly.

6. *Unpaid Obligations.*—Form 2453-W provides that the mortgagor shall furnish at closing satisfactory evidence that there exists no unpaid obligations in connection with the mortgage transaction, the purchase of the mortgaged property, or the construction of the improvements, except obligations secured by property or collateral owned by the mortgagor independently of the mortgaged property. Form 2455-W contains a representation by the mortgagor that there do not exist such unpaid obligations. If the Director has any reason to believe that the certificate of the mortgagor in this respect is incorrect, he will require submission of such additional evidence as in his opinion is necessary and, in the event of discovery of unpaid obligations contrary to the representation of the mortgagor, the Director will withhold endorsement of the credit instrument until such obligations are liquidated or until he is provided with evidence satisfactory to him that such obligations are secured with adequate collateral owned by the mortgagor independently of the mortgaged property.

7. *Incomplete Onsite Construction.*—The requirements with respect to completion of onsite construction will be the same as provided for in VI-2 above, in that the Director will require an escrow under the terms of Form 2456-W to assure completion of onsite construction and such escrow will be acceptable only under the conditions mentioned in VI-2 above.

8. *Incomplete Offsite Facilities.*—All offsite sewer, water, electric, and gas facilities must be completely installed and properly connected. Other offsite facilities, such as streets, walks, curbs, and gutters may be incomplete but necessary facilities for ingress and egress must be adequate and safe. In all cases involving such incomplete facilities the certifications of completion will be accepted only if there is presented with the certifications assurances satisfactory to the Director that the incomplete facilities will be completed within a reasonable time after endorsement of the credit instrument. Such assurances shall be (a) assurance from the proper public authority or public utility company, as the case may be, that such public authority or public utility company will complete the facilities without cost to the mortgagor, or (b) a cash escrow held by or placed under the control of the mortgagee in an amount equal to the Federal Housing Administration estimate of the cost of completion of such incomplete facilities. The terms of the escrow, if accepted, must provide that the funds cannot be released to the mortgagor except upon completion of the facilities to the satisfaction of the Federal Housing Administration. It must further provide that the mortgagee has the right to expend the funds to the extent available for completion of such facilities or to apply such funds to reduction of the principal amount of the insured mortgage by application of the funds to the last maturing installments of principal upon receipt from the Federal Housing Administration of notice to do so at such time as in the opinion of the Federal Housing Administration completion of the facilities is being unreasonably delayed. The adequacy of the assurances from the public authority is the responsibility of the Director, but such assurances must be in writing in form acceptable to the Closing Attorney. The amount of any escrow for assurances of completion of incomplete offsite facilities is the responsibility of the Director: the form and legal adequacy of any such escrow agreement is the responsibility of the Closing Attorney.

9. *Building Permits and Public Approval.*—Form 2453-W requires submission of the credit instrument of written evidence that the building, plumbing, gas, and other appliances therein, have been in-

spected and approved by all departments, boards, and agencies of the municipality, county or state or other government bureaus or departments having jurisdiction thereof and by the Board of Fire Underwriters or any bureau or body performing similar functions. At closing all such necessary evidence must be submitted. The sufficiency of such evidence is the responsibility of the Director. If having been determined prior to issuance of Form 2453-W that the proposed project will not violate zoning laws or regulations (see VIII-2 above), it will not be necessary that further evidence of compliance with zoning laws and regulations be submitted, unless prior to endorsement of the credit instrument there have arisen questions in connection with zoning laws or regulations or litigation in connection therewith, in which event the Director will require submission of such additional evidence as in his opinion may be necessary that no violations of zoning laws or regulations are involved.

10. *Special Conditions.*—At closing the Director must ascertain prior to initial-final endorsement of the credit instrument that all special conditions of Form 2453-W have been complied with fully, and executed duplicate copies of any documents in connection therewith must be submitted by the mortgagor at closing. The responsibility for compliance with the special conditions is that of the Director. The legal adequacy of documents in connection therewith is the responsibility of the Closing Attorney. In addition, if any collateral agreements are necessary with respect to any unusual conditions encountered at closing, executed duplicate copies of any documents in connection therewith must be submitted by the mortgagor. The propriety of such documents is the responsibility of the Director. The legal adequacy of such documents is the responsibility of the Closing Attorney.

11. *Credit Instrument.*—The credit instrument will be on Federal Housing Administration printed form. The acceptability and proper execution of the credit instrument is the responsibility of the Closing Attorney.

12. *Mortgage.*—The mortgage will be on the Federal Housing Administration printed form, and requirements with respect thereto will be as provided in IV-3 above. The acceptability and proper execution of the mortgage is the responsibility of the Closing Attorney. (See IV-3 above.)

13. *Chattel Mortgage or Attorney's Certificate.*—At closing there must be obtained a chattel mortgage or similar instrument on all movable property purchased with mortgage proceeds or the certificate of the mortgagee's attorney that such property is covered by the lien of the insured mortgage. The furnishing of information to the Closing Attorney as to movable property purchased with mortgage proceeds is the responsibility of the Director. The legal adequacy of the instrument or opinion accepted is that of the Closing Attorney.

14. *Certificate of Incorporation of Mortgagor.*—Where the insured mortgage is in excess of \$200,000 the requirements for the certificate of incorporation of the mortgagor in cases closed under Form 2453-W will be the same as in the case in which mortgage proceeds are advanced during the course of construction. (See IV-6 above.)

15. *"Survey Instructions and Certificate," Form 2457-W.*—The requirements for a survey and certificate will be the same as outlined in IV-5 above. The survey shall include the exact location of buildings, water, sewer, gas and electric mains, and all easements.

16. *Minutes of Meetings of Stockholders and Directors of Mortgagor.*—The requirements for submission of minutes of meetings of corporate bodies will be the same as provided for in IV-7 above.

17. *Bylaws of Mortgagor Corporations.*—The requirements respecting the bylaws of the mortgagor will be the same as provided for in IV-8 above.

18. *Stock Subscription Agreements.*—The requirements for stock subscription agreements will be the same as provided for in IV-9 above.

19. *Evidence of Commissioner's Beneficial Interest in Mortgagor.*—The requirements for submission and procedure for handling the evidence of the Commissioner's beneficial interest will be the same as provided for in IV-10 above, and although the evidence of the Commissioner's beneficial interest in cases of this nature will be received immediately prior to preparation of the Washington booklet (see XI hereafter), the Director will forward the evidence of the Commissioner's beneficial interest directly to the Comptroller in accordance with V-10 above.

20. *Comprehensive Attorney's Opinion.*—The mortgagor's attorney will submit at closing to the Closing Attorney, addressed to the mortgagee and the Federal Housing Administration, his comprehensive opinion as to the legality

of the entire transaction and the legality and adequacy of contractual commitments. The nature and scope of this opinion is the responsibility of the Closing Attorney.

21. *Initial Final Endorsement of Credit Instrument and Collection of Mortgage Insurance Premium.*—Upon receipt of a certification from the Closing Attorney that the instruments are in order, the Director will initially endorse the credit instrument and simultaneously therewith require payment by the mortgagee of the first mortgage insurance premium.

22. *Copies of Instruments.*—If the Closing Attorney is not present at the closing the Director will retain three copies of all closing instruments, one set for the local insuring office, one set for the Washington Docket for forwarding to Washington as provided in XI-1 hereafter, and the third for the Closing Attorney, to whom a set should be mailed immediately after closing for his review. In addition, the Director will deliver the original insured credit instrument and the original mortgage, or deed of trust, to the mortgagee. If there is a covering latent defects only, the original should be furnished to the mortgagee and a conformed copy retained for the Federal Housing Administration. The original policy of title insurance, or title binder, should be delivered to the mortgagee and a duplicate-original inserted in the Washington Docket. If the Closing Attorney is present at the closing, he will attend to the distribution of the closing instruments.

23. *Revision of Instruments.*—Subsequent to initial-final endorsement of a credit instrument no revision of the terms or conditions of the insured mortgage or of any of the contractual instruments will be permitted without prior approval of the Assistant Commissioner, Rental Housing and Property Management.

XI. Disposition of Dockets Under Form 2453-W

Immediately following initial-final endorsement of the credit instrument cases closed under Form 2453-W the Director will require the preparation of a permanent binder to be known as the Washington Docket. The material mentioned in subparagraph I hereafter will be obtained from the Washington Duplicate Dockets, as may be necessary, and the material not included in the Washington Docket or otherwise transmitted to Washington will be retained in the Insuring Office as provided in VII-4 above.

1. *Contents of the Washington Docket.*—The following papers will be on each, in the order indicated, the application on the bottom:

Application Section:

- Application for Mortgage Insurance, Form 2013-W. (O)
- Mortgagor's Certificate of Occupancy Preference, Form 2013e. (O)
- Project Income Analysis and Appraisal, Form 2264-W. (C)
- Commitment to Insure Upon Completion, Form 2453-W. (C)
- Assignment of Commitment and Acceptance, if any. (O)
- Request for Endorsement of Credit Instrument—Certificate of Mortgage and Mortgagor, Form 2455-W. (O)

Contract Section:

- Bond (A. I. A. form, or FHA Form 2452 or special form) guaranteeing against latent defects, etc., if any. (DO)
- Building Permits. (C)
- Escrow Deposit Agreement, Form 2456-W, if any. (EC)
- Escrow Deposit Agreement to Insure Installation of Offsite Facilities, Form 2446-W, if any. (EC)
- or
- Assurance of Public Authorities or Public Utility Companies for Installation of Offsite Facilities, if any. (EC)
- Collateral Agreements, if any. (EC)

Title Section:

- Title Evidence, as accepted at closing. (DO)
- Certified Survey of Property (Survey with Form 2457-W attached). (C)
- Zoning Ordinances. (C)

Mortgage Section:

- Mortgage Bond or Note (FHA Form). (C)
- (The above item must be a conformed copy as initially and finally endorsed). (C)
- Mortgage or Deed of Trust (FHA Form). (C)
- Hazard Insurance Schedule, Form 2445-W. (C)
- Hazard Insurance Requirements Upon Completion of Project, Form 2454-W. (EC)

Chattel Mortgage. (CC)

or

Certificate of Mortgagee's Attorney. (O)

Comprehensive Attorney's Opinion. (O)

Corporation Section:

Certificate of Incorporation of Mortgagor. (CC)

Bylaws of Mortgagor Corporation. (CC)

Stock Subscription Agreements. (CC)

Minutes of Meetings, Organization, etc., of Directors and Shareholders of Mortgagor. (CU)

C=Copy. CC=Certified Copy. DO=Duplicate Original. EC=Executed Copy. O=Original.

(a) Following assembly of material in the Washington Docket as above provided there will be inserted a completed "Requisition for Amortization Schedule", Form 2409-W, the data in such form to be obtained directly from the copy of the note and mortgage.

2. *Material Not Included in the Washington Docket.*—Subparagraph No. 1 above makes no reference to (a) master set of drawings and specifications, or (b) preferred stock certificate. These documents are disposed of as follows.

(a) Master Set of Drawings and Specifications and copies of all approved changes: To be retained in the Insuring Office until expiration of one year following initial-final endorsement of the credit instrument, when they will be finally reviewed for completeness and certification as required in transmittal letter 102400 after which each set of plans, specifications, and change orders is to be tightly rolled as a unit with the plans on the outside and securely tied with twine (Heavy India Finished—21 T 648) at each end; the gummed label No. 01386 must be prepared by indicating the year completed, Section of the Act as well as the FHA Project serial number and affixed to the end of the roll. The project name and serial number shall also be written or printed in crayon on the outside of the roll. Transmittal Letter No. 102400 is to be signed in triplicate by the Director and enclosed in an envelope which will be securely attached to the outside of the roll with Scotch tape and thereafter forwarded to the Director of Administrative Services Division, Attention: Files and Records Unit, 1001 Vermont Avenue NW., Washington 25, D. C.

(b) Preferred Stock Certificate or other evidence of beneficial interest: This will have been previously forwarded to the Comptroller in accordance with established procedure.

3. *Mailing of Washington Docket.*—Immediately following the preparation of the Washington Docket, it will be forwarded to the Closing Attorney with jurisdiction (by registered mail, if mailed). It will be the duty of the Closing Attorney to check the Docket to determine that it includes the instruments to be included therein in accordance with subparagraph 1 above and to determine that such instruments are in proper legal form. Upon determination that the Docket contains all required instruments and that said instruments are in proper form the Closing Attorney will insert in the Docket his certificate stating that he has checked the Docket and that it complies with this paragraph. One copy of such certificate will be forwarded to the Chief Counsel, Rental Housing, Washington, D. C. The attorney will then forward the Docket by registered mail to the Comptroller, Federal Housing Administration, Washington, D. C., Attention: Project Audit Section, with suitable letter of transmittal; one copy of which letter shall be sent to the Insuring Office from which the Docket was received and one copy to the Assistant Commissioner, Rental Housing.

4. *Material to be retained in the Insuring Office.*—All remaining original and duplicate material will remain in the Insuring Office as provided for in VII-4 above.

FISCAL INSTRUCTIONS

XII. *The personnel designated as responsible by the Director shall be guided in the collection and refund of fees and premiums by the following paragraphs*

No charges or refunds other than those listed in this section may be made. Except as indicated otherwise hereunder, the general fiscal procedures of Volume II of the Field Operating Manual will control.

1. *Types of Collection and Accounting Codes.*—The various types of Collections under Section 608 which should be received in a Field Office are as indicated below. They will be entered under "Classifications" on the Official Receipt

and Schedule of Collections by use of the "Code" indicated opposite each name designation.

(a) *Examination Fee—Code 1.*—The requirement to collect a full Examination Fee of Three Dollars (\$3.00) per Thousand Dollars (\$1,000) of the amount applied for with certain initial applications was discontinued on December 19, 1947 effective with revision in Section 608 Administrative Rules on that date. On and after that date this fee became collectible in two parts for all applications in accordance with provisions of paragraphs (b) and (c) below.

The balance of an Examination Fee (code B-1) is required whenever increase in amount is involved in connection with all commitments reopened within 90 days of expiration or termination and with all refinanced mortgages, as provided for, respectively, in paragraphs (f) (8) and (g) below; and also in connection with increases in the amount of commitments and mortgages as indicated under (h) below.

(b) *Application Fee—Code 1a.*—An Application Fee at the rate of One Dollar and Fifty Cents (\$1.50) per Thousand Dollars (\$1,000) of the amount applied for, shall accompany each application when initially presented and, also, as directed under (f) (1) (2) and (4) below.

(c) *Commitment Fee—Code 1c.*—A Commitment Fee at the rate of Three Dollars (\$3.00) per Thousand Dollars (\$1,000) of the largest amount committed—less credit for the amount of the Application Fee (and Commitment Fee, if any) previously collected and retained in the case—will be due upon delivery of the commitment to the mortgagee.

(d) *Insurance Premium—Code 2.*—An Insurance Premium at the rate of Five Dollars (\$5.00) per Thousand Dollars (\$1,000) of the face amount of the mortgage loan will be collected at the time of initial insurance endorsement. All Insurance Premiums due subsequent to insurance endorsement will be collected by the Comptroller's Division at Washington.

(e) *Inspection Fee—Code 6.*—An Inspection Fee at the rate of Five Dollars (\$5.00) per Thousand Dollars (\$1,000) of amount of commitment is collectible upon the acceptance of a Commitment to Insure Upon Completion, Form 2453-W, or upon initial endorsement for insurance where a Commitment for Insurance, Form 2432-W, has been issued. Code 6 will apply also to any additional Inspection Fee which may be required by the Administration as provided in the Commitment to Insure Upon Completion.

(f) *Reopening Applications and Commitments—Reopening Fee—Code 6a.*—Applications which have been rejected or withdrawn and commitments which have expired or been terminated may be reopened as indicated under (1) through (4) below. The Reopening Fee (code 6a) will be collected only for a commitment reopened within 90 days of its expiration or termination. No reopening fee will be charged for reopening applications which have been rejected or withdrawn.

(1) *Applications Reopened WITHIN 90 Days of Rejection or Withdrawal.*—An application reopened within 90 days of its rejection or withdrawal shall be accompanied by an Application Fee less credit for any Application (or Examination) Fee previously collected and retained in the case. There will be no change in project number. There will be no Reopening Fee Chargeable.

(2) *Application Reopened AFTER 90 Days of Rejection or Withdrawal.*—An application reopened after 90 days of its rejection or withdrawal shall be treated as a new application. It shall be given a new project number and it shall be accompanied by an Application Fee in full without any credit allowance for fee(s) under the former project number. There will be no Reopening Fee chargeable.

(3) *Commitment Reopened WITHIN 90 Days of Its Expiration or Termination.*—A Reopening Fee (code 6a) at the rate of Fifty Cents (50¢) per Thousand Dollars (\$1,000), based upon the face amount of the expired or terminated commitment, shall accompany the request for reopening. If termination is due to nonpayment of commitment fee, reopening may be considered only when the remittance covers the reopening fee plus the commitment fee specified in the commitment.

If the reopened commitment is for an increased face amount, there shall be collected Three Dollars (\$3.00) per Thousand Dollars (\$1,000) (Code B-1) based on such excess. If amount of commitment is reduced, there shall be no refund of any portion of the fees collected.

(4) *Commitment Reopened AFTER 90 Days of Its Expiration or Termination.*—A request to reopen a commitment more than 90 days after its expiration or termination must take the form of a new application. It shall be given a new

project number and it shall be accompanied by an Application Fee in full without any credit allowance for fee(s) under the former number. There will be no reopening Fee chargeable.

(g) *Refinancing an Insured Mortgage—Refinancing Fee—Code 6a.*—When a new insured mortgage is substituted for a prepaid insured mortgage, a Refinancing Fee (code 6a) at the rate of Fifty Cents (50¢) per Thousand Dollars (\$1,000) will be due. This fee shall be based upon the outstanding balance of the prepaid mortgage or the face amount of the new mortgage (whichever is the smaller) and shall be collected at the time of endorsement of the new mortgage.

In addition, if the face amount of the new mortgage exceeds the balance outstanding under the prepaid mortgage, an additional Examination Fee of Three Dollars (\$3.00) per Thousand Dollars (\$1,000) (code B-1) based upon such excess shall be collected at the time of endorsement of the new mortgage. Assign new project number and schedule fees thereunder.

(h) *Part or Balance of Fees or Premiums—Code P- or B-.*—Initial submissions of less than the required amounts of fees or premiums as indicated under the foregoing paragraphs (a) through (e), (f) (3) and (g) will have their applicable code numbers prefixed with "P-". Increases in amounts of applications, commitments, and insured mortgages will call for additional charges of the types indicated above and their code numbers will be prefixed "B-". This prefix will be used also for any balance of fee or premium received when through error only part of the amount due was submitted initially.

2. *Earned Collections and Permissible Refunds.*—(a) *Earned Collections:*

(1) *Examination Fee Collections Before December 19, 1947.*—An Examination Fee collected in connection with an application for Two Hundred Thousand Dollars (\$200,000) or less received in an office prior to December 19, 1947, shall be considered earned in full upon the issuance of the commitment. There will be no adjusting refund when the amount of any commitment is less than the amount applied for but there will be no charge for any later increase in such commitment up to the full amount originally applied for.

One Dollar and Fifty Cents (\$1.50) per Thousand Dollars (\$1,000) of any such Examination Fee shall be considered earned if the application is rejected or withdrawn at any time after the estimate of cost is completed and before the commitment is issued. Exception: See paragraph (b) (3) below.

NOTE.—With an application received on and after December 19, 1947, any overpayment of the Application Fee (see paragraph 1 (b) above) such as when a full Examination Fee is received in error with an application which should have been accompanied only by an Application Fee will be treated as an "overpayment" of Application Fee (code 1a) and refunded or adjusted as provided for under paragraph 2 (b) (6) below.

(2) *Application Fee.*—Any collected Application Fee shall be considered earned upon completion of estimate of cost under any project, except as provided under paragraph (b) (3) below.

(3) *A Commitment Fee* shall be considered earned after the issuance of the commitment and upon the receipt of the fee in an office and any later reduction in amount of commitment will call for no reduction or refund of such fee.

(4) *An Insurance Premium* shall be considered earned upon the endorsement of the credit instrument for insurance.

(5) *The Inspection Fee* shall be considered earned where a Commitment for Insurance, Form 2432-W, has been issued when the mortgage is initially endorsed for insurance and construction has commenced.

When the Commitment to Insure Upon Completion, Form 2453-W, is used, the Inspection Fee shall be considered earned upon the acceptance of such commitment by the mortgagee and mortgagor and construction has commenced.

(6) *The Reopening or Refinancing Fees* shall be considered earned, respectively, (a) when expired or terminated commitment is reopened and accepted for further processing and (b) when the new mortgage is endorsed for insurance.

(b) *Refund Vouchers.*—The field office shall initiate all vouchers to cover permissible refunds in connection with Section 608 projects. When refunds are to be made under two or more items per project at the same time they shall be included on one refund voucher.

Closing audit time will be when a project is rejected, withdrawn, expired, terminated, or insured by final endorsement; however, if it appears from pending negotiations that a noninsured project may be reopened in the near future, the closing audit may be deferred if found to be desirable not to exceed 90 days. At closing audit time the Closing Audit Sheet, Form 2077d, bearing the Project Number and with the Fiscal grid completed shall be prepared in duplicate and the original included in any Washington Docket sent to Washington.

A letter of explanation to the Assistant Commissioner, Rental Housing and Property Management, shall accompany each refund voucher giving amount of work done, status of case, and an elaboration of the reason for making the refund.

Refund vouchers should be prepared at closing audit time (unless requested earlier by remitter or as indicated for "overpayments" see (6) below) in the manner prescribed in paragraph 633 of the FOM in the following situations only:

(1) *Rejected PRIOR to Completion of Estimate of Cost.*—When an application is rejected for any reason at any time prior to completion thereunder of an estimate of cost, any collected fees shall be refunded at closing audit time.

(2) *Withdrawn PRIOR to Completion of Estimate of Cost.*—When an application is withdrawn for any reason at any time prior to completion thereunder of an estimate of cost, any collected fees shall be refunded at closing audit time.

(3) *Should Have Been Rejected PRIOR to Completion of Estimate of Cost.*—When after completion of estimate of cost a project is found to be of a type which should have been rejected prior to completion of estimate of cost, any collected fees shall be refunded at closing audit time.

(4) *Rejected or Withdrawn AFTER completion of Estimate of Cost.*—When after completion of estimate of cost (and before commitment is issued) an application is rejected or withdrawn for any reason except that covered in (3) above, the amount of fee collected which is in excess of One and One-Half Dollars (\$1.50) per Thousand Dollars (\$1,000) of face amount of mortgage loan applied for shall be refunded at closing audit time.

(5) *Construction Not Commenced.*—If construction has not started, any collected inspection fee may be refunded at withdrawal time provided any Commitment to Insure Upon Completion or any endorsed instrument are returned to this Administration for cancellation of signatures of the authorized agent.

(6) *Overpayment of Fee.*—Any overpayment of fee (including duplication of fee or fee remitted in error) will be refunded at closing audit time with the following exceptions: (a) Any minor overpayment of Application Fee will be adjusted in the collection of the Commitment Fee; (NB: A material overpayment of Application Fee should be refunded without delay after receipt in the office); (b) any overpayment under a Commitment to Insure, Form 2432-W, will be refunded at time of initial endorsement for insurance; and (c) any overpayment under a Commitment to Insure Upon Completion, Form 2453-W, will be refunded when commitment is issued and accepted.

(7) *Construction Prevented.*—Subject to the approval of the Assistant Commissioner, Rental Housing and Property Management, any fees collected under an active commitment may be refunded, provided the commitment is surrendered, when construction is prevented due to causes beyond the control of the mortgagor or mortgagee.

(8) *Lack of Need for Housing.*—When a Director determines there is no need for the additional housing represented by an active commitment, he may refund by means of refund voucher any collected fees thereunder upon surrender of the commitment involved.

(9) *Insurance Cannot be Made Effective.*—When insurance endorsement is prevented by noncompliance with commitment, expiration, or withdrawal, etc., any collected initial mortgage insurance premium shall be refunded at closing audit time.

Any overpayment of mortgage insurance premium will not be refunded as adjustment will be made after insurance, by the Comptroller.

(10) *Reopening Refund.*—If reopening is refused before further processing, any collected reopening fee will be refunded.

(c) *Reasons for Refunds:* The refund vouchers shall indicate the "reasons" for refund by use of the underscored subject caption only, of the applicable Sub-paragraphs (1) through (10) under (b) above.

3. *Scheduling Collections.*—Follow the Fiscal Chart, Paragraph 621 of the Field Operating Manual, in preparation of Schedules of Collections. When reporting any collection, besides showing the accounting code applicable thereto, always show the amount of the mortgage in the "Amount of Mortgage" column. When reporting any change show the (new) total amount of the mortgage. In the case

of a change in amount in a superseding mortgage, show the amount of the outstanding balance under the old mortgage and immediately thereunder the amount of the superseding mortgage.

4. *Section 608 Cases Pursuant to Section 610.*—The charges and their accounting codes set forth under paragraph 1 above will apply to applications for insurance under Section 608 pursuant to Section 610, except for the Inspection Fee which applies only to new construction.

Very truly yours,

CLYDE L. POWELL,
Assistant Commissioner.

NATIONAL HOUSING AGENCY,
FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C., December 24, 1946.

To: Directors of all field offices.

Subject: Review of insured mortgage transactions under section 608 for the purpose of increasing the mortgage where such increase is justified.

In order to stimulate the immediate production of rental housing projects under section 608 of title VI of the National Housing Act, it has been decided as a matter of general policy to give consideration to increasing the amount of an insured mortgage where a firm commitment (FHA Form 2432-W) has been issued, the transaction closed, and the mortgage initially endorsed for insurance, but during the construction period and prior to final completion, construction costs have risen for reasons beyond the control of the mortgagor.

In such cases it will be necessary for the mortgagee and the mortgagor to present detailed evidence supporting such excess costs and if, in the opinion of the director, the mortgagor's claims can be substantiated, the case may be reviewed by the underwriting section of the insuring office, a new project analysis (FHA Form 2264-W) prepared, together with an adequate analysis of the increased costs, and forwarded to this office with the director's recommendation.

It is understood, of course, that all legal limitations under the National Housing Act and administrative rules and regulations must be observed and the final amount of the mortgage to be insured necessarily will have to be supported by adequate rental income. If it is necessary to increase the rentals established in the initial processing of the case in order to support an increase in the mortgage, this must be done prior to occupancy of the units and such rentals must fall within established rental ceilings.

Upon receipt in Washington of your recommendation and the supporting data above referred to, you will be supplied with the proper supplemental commitment letter authorizing such increase and instructions on the procedure to be used by the mortgagee and the mortgagor in amending the Contract Documents and legal instruments to accomplish such increase.

The same review procedure will be followed where a commitment to insure upon completion (FHA Form 2453-W) has been issued and you will be advised how to amend such commitment.

In giving consideration to transactions of this kind and agreeing to review cases where the mortgage has been initially endorsed for insurance, or where a commitment to insure upon completion has been issued, you will base such review on the costs of labor and material at the time they were actually furnished for the construction of the project.

It is thought this change in policy will result in the immediate production of rental housing projects by taking into consideration necessary construction costs in bringing such projects to completion.

Sincerely yours,

CLYDE L. POWELL, *Assistant Commissioner.*

FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C., November 23, 1946.

To: Directors of all field offices.

Subject: Section 608 procedure for increasing insured mortgages and commitments to insure upon completion prior to final endorsement.

This letter cancels and supersedes section 608 rental housing letter 117 outlining procedure on the same subject.

This Administration will continue to give consideration to requests from the mortgagor and mortgagee for an increase in the amount of an insured mortgage or a commitment to insure upon completion if, during the construction period and prior to final endorsement of the credit instrument, the cost of constructing the project has risen above the original estimates by causes beyond the control of the mortgagor.

A mortgage which has been initially and finally endorsed for insurance is a closed case and cannot be reopened for this purpose.

It will be necessary, as heretofore, for the mortgagor to present detailed evidence supporting the increase in the overall cost of constructing the project and, if in the opinion of the Director the mortgagor's claim is substantiated, the project may be reviewed by the underwriting section of the insuring office. The mortgagor must establish by concrete evidence its actual increase in costs. Merely recognizing a rise in the cost index will not be sufficient.

The final amount of the mortgage to be insured must be supported by adequate rental income. If it is necessary to increase the rentals established in the initial processing of the project in order to support an increase in the mortgage, this should be done prior to occupancy of the units and such rentals shall not in any event exceed an amount necessary to show a net return of 6½ percent on the replacement cost of the property.

A new project analysis, FHA Form 2264-W, will be prepared, together with an analysis of the increase in the total cost of construction. The recent amendments to the act of August 10, 1948, make it necessary to prepare the project analysis on the basis of such amendments, using in addition to other criteria, the December \$1, 1947, or current costs, whichever is lesser, and the \$8,100 per family unit. The purpose of the project analysis is to arrive at the maximum insurable mortgage based on said limitations and the other criteria.

The amount of allowable increase will be the actual increase in the overall cost of constructing the project as substantiated by the mortgagor's evidence or the maximum insurable mortgage as shown on the project analysis, whichever is the lesser. A request based solely on an increase due to the per unit limitation rather than the per room limitation will not be considered.

In considering increases in cost due to approved change orders examination should be made as to the nature and necessity of such changes. Changes which are merely embellishments or ornamentation which do not enhance the rentability or habitability of the project should not be considered.

In order to reduce the reprocessing of projects as much as possible the insuring office shall not consider such requests where only a small increase in costs has been encountered which does not work a definite hardship on the builders and which would result in only a slight increase in the insured mortgage.

In approving the increased mortgage for insurance it must be determined that the administrative rules in force at the time of such approval have been complied with, except that if such increased mortgage is not in excess of \$200,000 any change in the nature and extent of the supervision by the Commissioner which would be required by section V, subsection 4 is hereby waived. Particular attention is called to the certificate required by section IV, subsection 2, which must be obtained.

The revised FHA Form 2264-W together with an adequate analysis of the increased costs, shall be forwarded to this office with the Director's recommendation. If the request for increase is approved, you will be supplied with the proper supplemental commitment letter and instructions on the procedure to be used by the mortgagee and mortgagor to accomplish the increase. A letter will be furnished also in the case of a commitment to insure upon completion containing instructions as to what amendments are necessary to the outstanding commitment.

Very truly yours,

CLYDE L. POWELL,
Assistant Commissioner.

HOUSING ACT OF 1954

2029

FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C., May 16, 1950.

rectors of all field offices.

: Procedure to be followed when mortgages are increased at final endorse-
nt.

ction 608, rental housing letter 167, dated November 24, 1948, specific
re was established with respect to conditions required for final endorse-
cases of insured construction advances and initial final endorsement in
nsured upon completion. Those procedures must be appropriately com-
n cases of insured construction advances where a supplemental commit-
is been issued for an increased mortgage amount to be advanced only upon
ion of construction of the project and final disbursement of the original
ge proceeds.

insured mortgages are increased, the increased amount which has been
d will be treated exactly the same as a commitment to insure upon com-
insofar as the increase in the amount of the mortgage is concerned, that
Administration's liability for insurance of the increase would date from
e that the Director endorses the increased amount of insurance. In all
ses the request for initial and final endorsement of the credit instrument
ing the increase will be made on FHA Form No. 2455-W.

mply with the above procedure, please note that the Form No. 2023-W
used to request final endorsement of the credit instrument for the amount
y disbursed and insured under the original mortgage amount. In addition
Form 2023-W, there shall be submitted an appropriately executed Form
55-W covering the amount of the mortgage increase. If the Form
5-W is submitted after the date of the first principal payment called for
redit instrument evidencing the mortgage increase, the amount requested
ial final endorsement in that form shall not be in a greater amount than
ncipal which should have been outstanding at the date of such request
ial final endorsement. This is explained in detail in the paragraph dis-
"Cases involving insurance upon completion" in the aforementioned
o. 167.

ence is made to section 608, rental housing letter 166, dated November 15,
nd emphasis is placed on the necessity of following the instructions set
that letter. The copies of Form No. 2403-W must be completely executed
pects and each copy must bear its date of approval by the Administration.
ginal of Form 2023-W must be audited to determine that the individual
s listed in such form aggregate the total shown upon such form and do
eed the aggregate of the amounts approved for insurance as revealed by
ificates of mortgage insurance on the applicable Forms No. 2403-W. In
o determine the effective date of mortgage insurance of each advance, it
sted that each Form 2023-W be carefully reviewed to determine that the
e, that is, day, month, and year of each and every disbursement, is shown.
Washington docket submitted must contain all of the above-mentioned

procedure set forth hereinabove shall apply to all mortgage increases
d for insurance subsequent to the receipt of this letter, without regard
ate when such increase was committed.

particular letter does not alter in any way the procedure for increasing
mortgages and commitments to insure upon completion prior to final
ment as outlined in section 608, rental housing letters 168, 184, 188, and
is to be considered in addition to the instructions contained therein.
Very truly yours,

CLYDE L. POWELL,
Assistant Commissioner.

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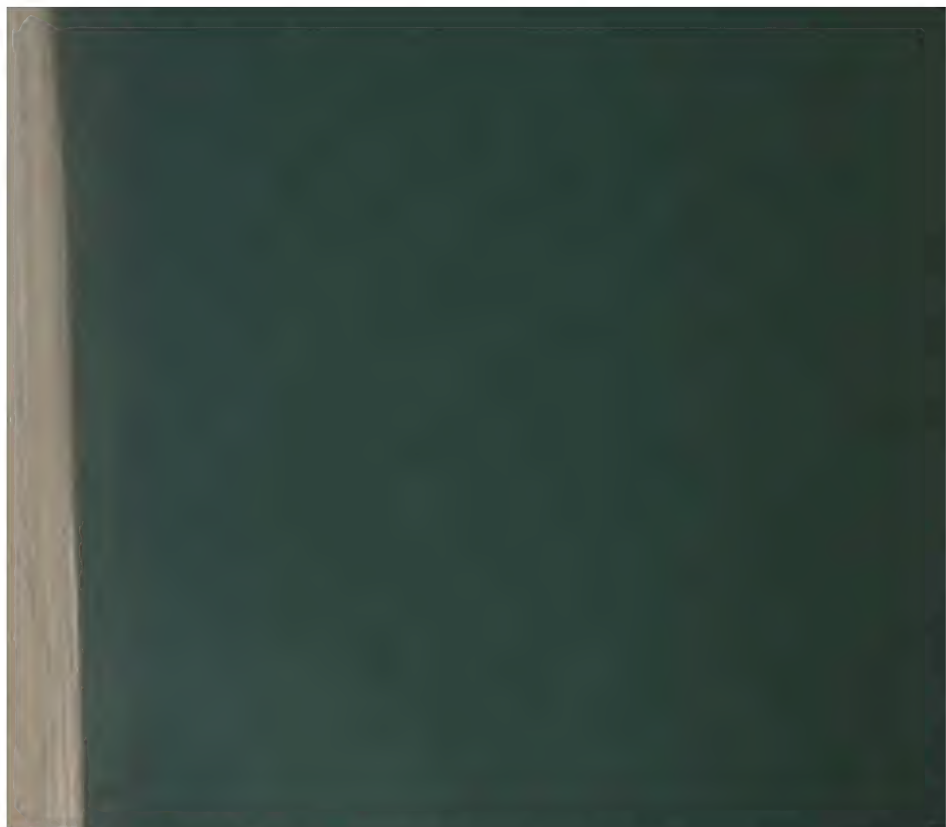
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